THREE ESSAYS ON THE ROLE OF HISTORY AND THE THEORY OF LONG-RUN GROWTH

by

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ABSTRACT

The dissertation is comprised of three essays exploring topics in the history of economic thought and macroeconomics. The first essay contends that despite a growing body of scholarly literature on Sir James Steuart, his theory of history and influence on Marxian political economy have been largely ignored. It is argued that Steuart's importance to students of the history of political economy is three-fold: First, Steuart appears to have been the first thinker in political economy to both recognize the historical specificity of capitalism, and to conspicuously incorporate that realization into his system. Secondly, in Steuart's approach to the question of value and profit, we find conceptions that defy easy classification. Steuart is seen to plainly abandon the mercantilist understanding of profit as determined in the sphere of exchange alone, and to treat what he calls the real value of a commodity as intimately related to its necessary labor time. Finally, we argue that Steuart's contemporary notoriety made him far more influential than is commonly recognized. In particular, we contend that Steuart, via Hegel, may have exercised an indirect influence on Marx's own theory of history in ways that Marx could not have recognized.

The second essay offers a reinterpretation of the central figure of the 'older' German Historical School, Wilhelm Rosher. The essay contends that the heterodox aspects of Roscher's thought have been greatly overstated, and that much of his proposed historical narrative should be seen as proto-neoclassical. Having outlined Roscher's approach to historical economics, the paper surveys the alternative approach of one of Roscher's contemporaries: Richard Jones. In Jones' system, we find a much richer approach to historical economics, one that has been overshadowed by the School of Roscher and Schmoller.

The third essay presents a critical survey of two distinct families of post-Keynesian growth models, drawing their basic inspiration from either Nicholas Kaldor or Michael Kalecki and Joan Robinson. A fundamental distinction between these families of models lies in their treatment of investment. In Kaldor's 'mature' work, which adopts John Hick's concept of the supermultiplier, investment is derived demand attuned to the growth autonomous demand. In contrast, with Kaleckian-Robinsonian models, investment takes a life of its own in the form of an independent investment function dependent on the rate of profit. The result of this modeling choice is that changes in distribution can have ambiguous effects on the rate of accumulation, effects which depend on the specification of the investment function. Modern Kaleckian-Robinsonian models, following Steven Marglin and Amit Bhaduri, draw the distinction between profit- and wage-led growth regimes. In the wage-led case, a rising wage-share bolsters demand and increases the rate of capacity utilization which, in turn, induces firms to invest. In the profit-led case, however, a rise in the profit share serves as the stimulus to investment, and ultimately growth. Against an empirical literature that seeks to understand the neoliberal era in these terms, it is argued that recent US growth may be better understood in the context of a simple Kaldorian supermultiplier framework. While the profit share has risen significantly over the past 30 years, the conjecture that the US growth regime has been profit-led is largely based upon spurious correlations. Instead, investment has remained demand-led, as consumer spending was (unsustainably) bolstered by rising debt-income levels.

For Wendy

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1 MARX'S APPRECIATION OF JAMES STEUART: A THEORY OF HISTORY AND VALUE

It remains a curious fact that scholars in the history of economic thought have devoted so little attention to the work of Sir James Steuart. While a not insubstantial body of literature on Steuart has emerged in recent years, textbooks commonly offer him little more than a footnote.[1] Critical treatments of his work suggest that his few valuable insights lie scattered throughout his *Inquiry*; often obscured by the apparent disorganization of the text. Even sympathetic appraisals of his work tend to characterize it as that of 'the last great mercantilist.' These authors commonly suggest that Steuart's prime virtue was that his popular exposition of the core of mercantilist doctrine provided a ready target and, to some degree, the impetus for Smith's rebuttal in *The Wealth of Nations.* In this account Smith is seen to have retained the occasional insight from Steuart which he, in turn, presented with far greater clarity and in the context of a *system* of political economy. While all these accounts involve a measure of obfuscation, our purpose here is not to merely refute them. Rather, we propose to examine Steuart's system on its own merits, with critiques of previous scholarship offered merely as asides.

This approach is largely motivated by Marx's sympathetic treatment of Steuart found in the opening of his *Theories of Surplus Value*, and in scattered asides throughout the remainder of his work. We argue that Steuart's importance to students of the history of political economy is three-fold: First, following Marx, we consider the unique and dynamic role played by history in Steuart's system. Steuart appears to have been the first thinker in political economy to both recognize the historical specificity of capitalism, and to conspicuously incorporate that realization into his system. As we shall see, Steuart pursued a number of interrelated purposes in placing such great stress on the historical process which created capital: among them, explaining the process of class differentiation, examining the motive forces of population growth, along with the rise of centralized early-Modern States able to exercise the regular authority of taxation. What is genuinely remarkable in this

[1] Mark Blaug, whose neglect of Steuart is representative of the profession, suggests that "of the treatises published before the *Wealth of Nations*, there are two that can still be read with pleasure and occasional surprise: Cantillion's *Essai...*and Turgot's *Reflections* ." Blaug 2009, p. 32.

historical narrative is not so much its level of scholarship, which is occasionally shaky, but rather the candor with which Steuart describes both the progressive and deleterious effects of these historical transformations. As one of Marx's most basic critiques of Classical political economy is its ahistorical nature, Steuart offers an interesting counterpoint; an example of bourgeois political economy absent this rupture. Secondly, in Steuart's approach to the question of value and profit, we find conceptions that defy easy classification. Steuart is seen to plainly abandon the mercantilist understanding of profit as determined in the sphere of exchange alone, and to treat what he calls the *real* value of a commodity as intimately related to its necessary labor time. Finally, we argue that Steuart's contemporary notoriety made him far more influential than is commonly recognized. In particular, we contend that Steuart, via Hegel, may have exercised an indirect influence on Marx's own theory of history, in ways that Marx could not have recognized.

Our approach to Steuart's system is divided as follows: First, the subsequent discussion is motivated by a brief survey of Marx's influential views on Steuart. We then attempt to place Steuart's arguments in their proper historical context, emphasizing the Continental influences on Steuart's thought. Following this, we devote the majority of our attention to tracing out Steuart's historical system, as largely developed in Books I and II of the *Inquiry.* Having outlined this theory, we survey the aspects of Steuart's theory of value with which Marx was concerned. The final section brings to the reader's attention the impact, in the view of several scholars, that Steuart's *Inquiry* may have had on the young Hegel. In concluding, we remind the reader that our presentation does not introduce a new interpretation of Steuart, but rather should serve as a reminder of his importance for any merger of history and political economy.

1.1 A Vision of Primitive Accumulation

As a measure of the contemporary interest in Steuart can be attributed to the attention he was paid by Marx, we might dwell a bit on Marx's assessment. The approbation Marx shined upon Steuart, while far from absolute, is clear. Indeed, we ought to appreciate Marx's choice to open *Theories of Surplus Value* with a brief, but focused survey of Steuart's method as much more than an incidental choice.[2] More precisely, Marx felt that Steuart's greatest contribution was describing in

[2]While the first edition of *Theories of Surplus Value* reflected in its arrangement Kautsky's sometimes dubious editorial choices, more modern editions adhere to Marx's own surviving table of contents. Marx would appear to begin with James Steuart because he offers a striking example of both the virtues and defects of pre-Classical political economy. For Marx, Steuart's analysis is defective in the sense that it fails to fully recognize the sphere of production as the sire of surplus value. Despite this shortcoming, Steuart is quick to recognize that profits within the sphere of exchange are merely *relative*; that is, they represent a 'vibration of the balance of wealth between two parties.' In contrast, real or absolute profit results from increases in productivity, or what Steuart calls the "augmentation of labour, industry, or ingenuity." Though he did not subject the latter category to closer examination, Marx nevertheless lauds Steuart as the 'rational' or 'scientific expression' of the mercantilist system.

detail the process of extra-economic expropriation that preceded the capitalist mode of production. Marx explicitly noted that "[Steuart's] service to the theory of capital is that it shows how the process of separation takes place between the conditions of production, as the property of a definite class, and labour-power...In Adam Smith's writings this process of separation is assumed to be already completed."[3] Steuart's exposition of the origins of property, and capital itself, thus offers Marx a figure of contrast against the method of Smith and Classical Political Economy in general. Against those obfuscations that would push the origins of landed property and capital into a murky and inscrutable prehistory – Smith's 'previous accumulation' – Steuart lays bare this historical process.[4] In taking capital as a necessary prerequisite for large-scale industry, Steuart is forced to trace the origins of capital itself, an outline of which we find below.

We find another representative example of Marx's view of Steuart in his comments on work by Richard Jones first published in 1831. The work is distinguished, for Marx, "by what has been lacking in all English economists since Sir James Steuart, namely, a sense of the historical differences in modes of production."[5] Still Marx's most favorable comments regarding Steuart are reserved for his *Contribution to a Critique of Political Economy.* Here, two prime virtues of Steuart's system are singled out. First, Steuart appreciated the transformation of labor under the capitalist mode of production. Marx says, "[h]e distinguishes labor as industry not only from concrete labor, but also from other social forms of labor. He sees the bourgeois form of labor as distinct from its antique and medieval forms."[6] Secondly, Steuart appreciates the privileged role accorded to the commodity, and the historically distinct universality of commodity production under capitalism. That is, Steuart recognizes that it is only under capitalism that the commodity becomes the organizing principle of society as a whole. Here Marx notes:

> Steuart knew very well that in pre-bourgeois eras also products assumed the form of commodities, and commodities that of money; but he shows in great detail that the commodity as the elementary and primary unit of wealth and alienation as the predominate form of appropriation are characteristic only of the bourgeois period of production, and that accordingly labor which creates exchange value is a specifically bourgeois feature.[7]

It should be evident that this is not a trifling statement of praise. Steuart grasped the essence of the transformation of labor, the basic movement away from the direct production of use-values towards

[3] Marx 1963, Vol. I, p. 43. While we might concur with Marx's general assessment of Steuart, it is nevertheless regrettable that he chose to devote so little attention to him in his written work. Further, given his comment that in Steuart's work, the Mercantile system found its 'rational expression,' Marx might be cited as the original progenitor of the claim that Steuart was simply the last great Mercantilist author.

[4] For one recent outline of Steuart's theory of 'primitive accumulation,' see Perelmen 2000, p. 139-70.

[5] Marx 1963, Vol. III, p. 399. We should note that while Marx did, on occasion, offer praise for some of Smith's historical insights, he clearly regarded Steuart as the superior systematic historian.

[6] Marx 1904, p. 66.

[7] Ibid, p. 67.

its role as a valorizing commodity in the sphere of exchange value.

1.2 Intellectual Influences

As a Scottish contemporary of both David Hume and Adam Smith, it has been customary to place Steuart within the broader context of Scottish political economy. Though there is indeed evidence to recommend such a classification – Steuart's correspondence and friendship with Hume being but one example – one fears that for a nonspecialist audience, this classification obscures much of what is unique to Steuart. While for both Hume and Smith it was the discussion of moral philosophy and ethics that prompted exploration of political economy proper, we find little of this in Steuart. Steuart's extant writings, beginning with his *Dissertation on Money*, take up the subject of political economy immediately, and pay scant attention to many of the themes so dear to his peers. Certainly, there are marked commonalities between Steuart's method and that of the Scottish Historical School, but this influence alone seems insufficient to explain the novelty of Steuart's political economy relative to that of Smith and Hume. For Steuart's contemporaries[8], as well as for the modern reader, Steuart's method and tenor marked him as exceptional. As Schumpeter was to note, the very concept of an enlightened 'statesman' – the figure to which Steuart's *Inquiry* is addressed – "was quite out of contact with England's humor."[9] Something of this distinctive method would seem to be explained in the biographical details of Steuart's life.

Steuart began his academic career as a student of history and law at Edinburgh, and upon completing his studies, first left Scotland for the Continent in 1735. Few details of this intervening period survive, but we know that by 1740, Steuart had returned to his family's seat at Coltness, and might well have led an unremarkable life had history not intervened. In his earlier travels which led him to Rome, Steuart had come into contact with Charles Edward Stuart, 'the Young Pretender.' Whatever Jacobite sympathies Steuart may have harbored previously seem to have been strengthened by this encounter, and led Steuart to back the Pretender in the rising of 1745. Following Charles' defeat at Culloden, Steuart absconded with his family back to the Continent, ultimately remaining there for most of the next two decades.[10] Steuart first took up residence in

[8]In a review of the Inquiry published in 1767 we are told that "[t]he observations he has made, and the intelligence he has acquired, during his residence in several parts of Europe, have furnished him with the most authentic facts for the foundation of his reasoning." *Monthly Review*, Vol. 36, 1767, p. 280. The same author concludes his review by noting that "we differ wildly from our Author in some of his political principles; and think many of his *oeconomical* principles would lead to regulations much *too minute* to be consistent with a just spirit of manly freedom." Vol. 37, 1767.

[9]Schumpeter, in a footnote to the same passage, goes on to note that there was "something un-English (which is not merely Scottish) about his views and his mode of presentation." Schumpeter 1954, p. 171-2.

[10]No book-length biography of Steuart exists. Interested readers are advised to consult Skinner 1966. A short outline of Steuart's life is also contained in Hutchison 1988.

France, remaining there for nine years before moving with his family first to Frankfurt, and ultimately to Tübingen. It was during this extended exile that Steuart's interest in political economy clearly emerged, and Steuart was to compose the first three books of the *Inquiry* along with his *Dissertation on Money* before returning to Scotland in 1763. Thus, bearing in mind only these biographical details, one might have reason to suspect that Steuart's intellectual development followed a rather different trajectory than his Scottish contemporaries.

Still, in questioning Steuart's place within the lineage of Scottish political economy, one has first to contend with the considerable authority of A.S. Skinner. Professor Skinner, though readily admitting the influence of 'Continental thought' on Steuart's work, firmly locates Steuart within the "Scottish tradition" of political economy.[11] In his early work, Skinner claimed that Steuart's "*historical materialism* discloses a remarkable parallel with the work of the Scottish Historical School."[12] That Steuart's historical method had much in common with the great Scottish historians of his era seems undeniable, particularly insofar as the 'School' readily acknowledged its debt to Montesquieu.[13] In particular, Skinner notes that many figures in the Scottish Historical School held economic development to regulate and determine the evolution of much political and social life. For Skinner, the "economic determinism" present in Steuart's work was then very much in keeping with the historical method of his day. The more difficult question, for our purposes, is why such a theory of history featured more prominently in Steuart's political economy as opposed to that of Hume or Smith. In comparing Steuart's *political economy* with that of his peers, Skinner has highlighted a number of 'obvious parallels' between Hume's work and that of Steuart. The most striking of these, Skinner argues, is "the use of the historical approach...especially as applied to political subjects."[14] More explicitly, Steuart shared Hume's contention that the reorganization and decentralization of political power in England was the inevitable consequence of the growing wealth of the commercial and industrial classes. This commonality seems just as clear as it is relatively indecisive with regard to Steuart's historical method as a whole. Skinner himself goes on to note that Steuart "carries the argument further...in the sense that he explicitly addressed the issues presented by a socio-economic system in a process of transition," again begging the question of why Steuart chose to advance his method in this way.

The answer to this question would seem to lie in Steuart's Continental influences. Deborah

[11]Skinner 1990, p. 158. Here, at least, Skinner seems to dance around the term 'Scottish Enlightenment,' preferring instead to see Steuart as a 'major figure' in the broader European Enlightenment, as well as an exemplar of the 'Scottish tradition.'

[12]Skinner 1962, p. 17. My italics.

[13]Skinner highlights a remarkable quote from John Millar: "The Great Montesquieu pointed out the road. He was the Lord Bacon of this branch of philosophy." In *Ibid*, p. 18.

[14]Skinner 1990, p. 150.

Redman has argued that the emphasis placed by Steuart on statecraft and active economic policy is a direct consequence of his time spent abroad.[15] Singled out by Redman are Montesquieu and the German cameralist Johann Heinrich Gottlob von Justi. From Montesquieu[16], Steuart is seen to adopt the central concept of the 'spirit of the people,' and with it the notion that economic policy, like a system of laws, must be tailored to the specific habits and customs of a given population.[17] The case for the influence of Justi, though more conjectural, also seems defensible. In Justi's work, the purpose of the state was to ensure the greatest happiness for its citizens; an objective that could only be satisfied amidst a developing and prosperous economy. Steuart's *Inquiry* is then seen as a comprehensive guide for the statesman in satisfying this precondition. There is little reason to dispute the emphasis placed by Redman on these influences, as they explain much of Steuart's policy-oriented tone. The intellectual influences on Steuart's theory of history – that aspect of his thought so lauded by Marx – have largely escaped the attention of existing literature.

Skinner notes that Mirabeau the elder may have been a prime influence on the aspects of Steuart's argument with which we are concerned. He says "the *L'Ami des Hommes* was first published in 1756 and Steuart may have taken it as a model; the order of the arguments in Books 1 and 2 of the *Principles* bears some resemblance to the earlier work and Steuart also followed Mirabeau's original practice of including a complete recapitulation of the argument of each book."[18] This commentary notwithstanding, little attention has been paid to the influence exercised by Mirabeau on Steuart's theory of history. This absence of commentary may be explained, in part, by the fact that Mirabeau's seminal work does not exist in an English translation, while French editions are relatively scarce. This too is somewhat surprising, given the immense popularity of *L'Ami des Hommes* in its day. Appearing in 20 editions in the first three years after its initial publication, Mirabeau's treatise enjoyed a popularity on par with Diderot's *Encyclopédie*.[19]

Among the contemporary disputes to which Mirabeau addressed his work was the alleged depopulation of France, and the question of what measures and laws would best support the expansion of population. Montesquieu had earlier raised this issue, suggesting that not 200 years earlier, under the reign of Charles IX, France had enjoyed a population of twenty million.[20] He concluded that

[15] Redman 1996, p. 48-70.

[16] Montesquieu tells his reader that "[m]ankind are influenced by various causes: by climate, by the religion, by the laws, by the maxims of government, by precedents, morals, and customs; whence is formed a general spirit of nations." Montesquieu 1900, p. 350.

[17] Given the fact that Steuart cites Montesquieu's *Spirit of the Laws* (1748) directly in the *Inquiry,* this claim seems beyond dispute.

[18] Skinner p. xxxvii, n. 79. Skinner also informs us that Steuart met Montesquieu in the 1750s, and "likely" Mirabeau as well.

[19] Kwass 2004.

[20] Montesquieu 1900, p. 511. Judging by contemporary surveys, this was a gross over-estimate.

"Europe is at present in a condition to require laws to be made in favour of the propagation of the human species."[21] Montesquieu's proposed solution was a program of redistribution wherein land and basic tools should be given "to all families who are in want" and "continued so long as there is a man to receive it."[22] Mirabeau, while echoing the concern over the depopulation of France, saw it as the consequence of over-consumption among the privileged classes. This over-consumption – called at times by Mirabeau 'double-consumption' – literally took food out of the mouths of the poor. Given such a criticism, one might expect to find in *L'Ami des Hommes* calls for higher taxation of luxury goods, or other forms of state regulation to reduce this overconsumption. Such proposals are absent, however, and the essence of Mirabeau's proposed remedy is that the state should foster a new organic upsurge in the values of republican virtue and civic duty among the landowning classes. The nobility should then voluntarily renounce its excessive consumption and re-invest these savings into the core of the agricultural economy.

In appraising the Continental influence of Steuart's work, particularly on the argument presented in Books I and II[23], it should be understood that Steuart was offering his own views on how best to promote the expansion of population. As we shall see, in surveying history in his cold but honest manner, Steuart was enumerating the means by which population and economic growth had been achieved. The answer, in nearly every case, seems to point to active statecraft enacted by Steuart's enlightened statesman.

1.3 Steuart's Modes of Production

If we are to better understand the role history played in Steuart's system, we ought to begin, as he himself does, with a few cursory remarks on his view of human nature. Even the casual reader of Steuart's *Inquiry* would likely be struck by Steuart's discomfort with universal laws in political economy. In direct language, Steuart surmises that "fundamental, that is, invariable laws, can never subsist among men, the most variable thing we know: the most fundamental law, *salus populi*, must ever be relative, like every other thing."[24] Here, as in many other respects, Steuart stands in stark contrast to his great critic: Adam Smith.[25] In light of this innate social variability, we are told in the introductory chapter of Steuart's *Principles* that "[t]he great art therefore of political economy is,

[21] Ibid, p. 512.
[22] Ibid, p. 513-4.
[23] Skinner also notes that Steuart used the first edition of *L'Ami des Hommes* (1756). It is then "important to remind ourselves that the first two books of the *Principles* were composed by the summer of 1759, that is prior to the effective dissemination of physiocratic teaching." The second edition of *L'Ami* was significantly edited to reflect Mirabeau's 'conversion' to Physiocracy by Quesnay. See Skinner 1999, p. 140.
[24] Steuart 1966, p. 21.
[25] A ready example of this tendency is apparent in Smith's claim that a division of labor is an inevitable effect of the "propensity to truck, barter, and exchange one thing for another." Smith 1863, p. 6.

first to adapt the different operations of it to the spirit, habits, and customs of the people."[26] Steuart appraises political economy as an 'art' precisely because he assumes that human social relations are not static. While Steuart does see commonality in human behavior across historical eras, he does not appeal to the universality of market relations or of rational self-interest. Instead, Steuart offers up a diversity of motives such that we find humans "acting uniformly in all ages, in all countries, and in all climates, from the principles of self-interest, expediency, duty, or passion. In this [humans are] alike, and in nothing else."[27] Thus from the first, Steuart avoids any appeal to a transhistorical propensity to 'truck, barter, and exchange,' while recognizing that any study of human behavior necessarily involves a complex and mutable subject.

The 'spirit of the people,' referred to above, is also a central concept in this introduction. This 'spirit' might be loosely understood as the customs of a given nation or polity, albeit customs that exercise a determinant influence on the specific form of government adopted in any nation. More specifically, "the spirit of a people is formed upon a set of received opinions relative to three objects; morals, government, and manners."[28] Though Steuart does not believe that these received opinions are permanently fixed, he argues that any alteration of them will necessarily be a protracted process extending over generations. Here, for the first time, the deeply historical nature of Steuart's *Inquiry* becomes evident. A guiding question for Steuart is how the dramatic transformation of economic and political relations, between the early 16th century and his own era, had been realized. The substance of this transformation is, for Steuart, two-fold. The first change Steuart sees is the elimination of the "chain of subordination among the subjects," such that "every industrious man, who lives with oeconomy, is [now] free and independent under most forms of government." The second major change observed by Steuart is the growth of centralized governments subsisting primarily not from continual military conquests, but rather from taxes; that is, "the consequences and effects of commerce only." At this stage of the *Inquiry*, the historical examples provided are merely illustrative. We do not find ready answers as to how these social revolutions were achieved. Rather, the reader is meant to appreciate that in light of Europe's historical experience, no transformation of social relations should be viewed as impossible.

Moving forward, the centrality of labor in Steuart's system becomes apparent. Though Steuart accepts that in a state of nature the earth might naturally provide for the subsistence of some minimal human population, through what Steuart calls its 'spontaneous fruits,' this stage of human

[26] Steuart 1966, p. 16.
[27] Ibid, p. 20.
[28] Ibid, p. 24. Here, Montesquieu's influence is readily apparent.

history is not of particular interest to Steuart.[29] What instead concerns him is the process through which human societies develop; the first precondition of which is settled agriculture, in his view. Importantly, Steuart's argument is not simply that agricultural production allows for the expansion of population, but that it furthers the division of society into two fundamental classes. Thus in agricultural societies, we find for the first time, "[t]hose who, without working, live upon the spontaneous fruits of the earth," set against "those who are obliged to labor the soil."[30] Here Steuart's own class position is reflected in his vision of the roots of this class division. We are told that it is the 'objective superiority' of certain persons that motivates the division. The subordinant position of the laboring class is then taken as a voluntary relation stemming from the needs of this class to procure it subsistence. At first glance, such a trite apologia for contemporary class relations appears to find shared kinship in the subsequent lesser lights of classical political economy. We should, however, highlight two distinguishing features of Steuart's system that set it apart from the aforementioned company. First, Steuart recognizes that it is the production of a social surplus that allows one class to live without laboring. It therefore follows that it is the productivity of this laboring class that determines the feasible size of the nonlaboring class. Secondly, and more importantly, Steuart holds that the laboring class will have no innate motivation to produce more than its own subsistence needs. Consequently, the production of a surplus requires that the laboring class be compelled to labor beyond this point; a feat that could be accomplished through a variety of historical means.

The candor with which Steuart enumerates these possible means is striking.[31] He appears to regard slavery not as one possible form through which a greater surplus could be produced, but as the necessary first form. We find that "to make one part of the state work to maintain the other gratuitously could only be brought about by slavery, and slavery was therefore introduced universally." Steuart saw that while in his own day it had become the job of the statesman to create the system of mutual wants that bound society together, the first historical form of compulsion was necessarily extra-economic.[32] Steuart appears to deduce two prime virtues from the slave system of production. The first of these is that slavery allowed for the rapid expansion of human population. Here Steuart's theory is curious: It is not simply that slavery directly induced a higher level of production, but rather that wars of conquest served to reallocate subservient populations to regions

[29]The necessity of labor stems, for Steuart, from a simple fact: "As to men, the earth does not spontaneously produce nourishment for him in any considerable degree." Ibid, p. 31

[30]Ibid, p. 34

[31]The difficulty of teasing out Steuart's historical system is also apparent in these passages. While Steuart intends to trace the historical genesis of contemporary economic relations, his discussion is far from linear. Indeed, he seems to move freely from one era to another to meet the requirements of his circuitous argument.

[32]Steuart states explicitly that "Slavery was then as necessary towards multiplication, as it would now be destructive of it." Steuart 1966, p. 49.

where they could be most productive.[33] The second virtue pointed to by Steuart is that slavery allowed for the rise of a significant population not directly tied to agricultural production, and thus 'free' to engage in trade, industry, and war-making. Though Steuart admits that this was certainly a 'violent' method of bringing about a diversification of production, the simple fact of its historical prevalence seems to offer him sufficient proof of its necessity. In the slave system, population was allowed to expand while not outstripping the productive capacity of society as a whole. As we shall see, though the slave-stage was but a transitory phase of economic development, an essential division of society into two classes is maintained by Steuart throughout his historical narrative.

It is only after this slave stage of production that Steuart believes more wide-spread 'industry' can be introduced among a population. Admittedly, Steuart devotes little genuine scholarship to the study of this transition. Instead, the essence of this historical transformation is put somewhat poetically by Steuart: Namely, that men should be made slaves not to others, but to their own wants.[34] The reader finds that:

> [W]e may lay it down as a principle, that a farmer will not labour to produce a superfluity of grain relative to his own consumption, unless he finds some want which may be supplied by means of that superfluity. Neither will other industrious persons work to supply the wants of the farmer for any other reason than to procure subsistence, which they cannot otherwise so easily obtain...Agriculture among a free people will augment population, in proportion only as the necessitous are put in a situation to purchase subsistence with their labour.[35]

Steuart readily admits that such a relation of market dependence, in which the provision of subsistence is increasingly mediated by the market, would not evolve of its own accord. Rather, he explicitly notes that the 'statesman' ought to *force* certain classes into these relations. Here Steuart redefines the class division within society as a relation between direct agricultural producers, and so-called free hands.[36] While the direct producers are obviously bound to that land which is most productive, the free hands face no such geographical restriction and may thus found and expand the population of cities. Steuart then further subdivides these city-dwellers into two categories: "those to whom this surplus directly belongs, or who, with a revenue in money already acquired, can purchase it. The second, those who purchase it with their daily labour or personal service." Having broadly outlined this class division within society, Steuart goes on to examine its advantages.

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[33]As Steuart callously remarks, "These [slaves], sold to private people, or different states, were sure of being fed; whereas, remaining in their own country, they occupied a place only, which, by the force of the generative faculty, as has been observed, was soon to be filled up by propagation. Ibid, p. 50.

[34]Ibid, p. 49-51

[35]Ibid, p. 51.

[36]Steuart seems to share a basic assumption with the Physiocrats in that the agricultural labor force is taken as the basic productive unit of society, upon which all other classes depend. Though Steuart clearly values the industrial development of cities to which agricultural suplus gives rise, he is clear that these industrious free hands are only maintained by virtue of agricultural surplus.

It is only at this point that we find that much of Steuart's concern with history results from a need to explain how the modern State realized the ability to tax its citizens. Absent a division of a country's citizen into urban industrial and rural agrarian populations, Steuart contends that regular taxation would have been a near impossibility. We are told that "[f]or as long as the earth nourishes directly those who are upon her surface, as long as she delivers her fruits into the very hand of him who consumes them, there is no alienation, no occasion for money, consequently no possibility of establishing an extensive taxation."[37] That is to say, the State will find itself unable to tax its citizens if monetary relations are not yet a commonplace among them. Thus to explain the rise of fiscally viable centralized States, Steuart must also examine the decay of feudal relations of nonmonetary dependence. He does so with his characteristic mixture of brevity and (over-)confidence, locating the prime movers in this social revolution in the course of a few paragraphs. In this outline, the decline of feudalism owes largely to the growing demand amongst the lower echelons of the nobility for luxury goods. As Steuart puts it, "[t]hey now no more appeared to one another as objects of jealousy, but of emulation."[38] The lower tiers of the nobility, in their desire for ostentatious displays of wealth, thus found themselves with a far greater need for money to finance their growing consumption. The solution they found was both simple, and ultimately disastrous for the existing social order: "In order to procure this money, he found it expedient to convert a portion of the personal services of his vassals into cash: by this he lost his authority."[39] Moreover, the landed aristocracy – having developed a taste for urban life – increasingly acted as absentee landlords, employing a caretaker to oversee their estates.[40] This style of management gradually transformed the customary relations of the estates, terminating hereditary tenure arrangements, and directing a greater portion of the estate's produce towards the market. Concomitantly, the lords' growing demand for luxuries fed the growth of a new urban bourgeoisie. As Steuart words it:

> At last, the money spent in the city began to flow into the hands of the industrious: this raised an emulation and the children of the miserable, who had felt the sad effects of the revolution, but who could not foresee the consequences, began to profit by it. They became easy and independent in the great city, by furnishing to the extravagance of those under whose dominion they were born.[41]

Though Steuart's account of this transformation is quite rapid and lacking in detail, he is nevertheless keenly aware of the dramatic social upheavals that brought nascent capitalist system into being. Moreover, he gives considerable attention to the postive role played by cities as nexuses of trade.

[37] Steuart 1966, p. 59.
[38] Ibid, p. 61.
[39] Ibid, p. 62.
[40] In a choice bit of language, Steuart in fact refers to these managers as "undertakers" who "began by dismissing idle mouths."
[41] That one can see in this statement a glimmer of a notion of dialectical progress in history is, as we shall see, far from incidental. Ibid, p. 62.

Having grown under the feudal regime – a consequence having realized "the only dawning of public liberty" – cities continued to flourish under the proto-mercantilist system, sweeping away any vestiges of feudalism as they expanded. Their first positive function was to draw away from the countryside the 'supernumary' labor with which it had been encumbered. Relocated in the cities, these 'idle hands' were readily transformed into sources of industrial labor and, equally important, sources of demand. Secondly, Steuart remarks that the luxury consumption of the upper-classes in the cities provided "the opportunity of levying taxes, and of making these taxes affect the rich in proportion to the consumption they [made]."[42] Thus it was only with the development of an urban bourgeoisie that early-Modern States were able to secure a regular base for taxation. Finally, the concentration of population in the cities made necessary more highly developed systems of transportation to feed this rising demand.

Following this discussion, Steuart puts aside history for a time, preferring temporarily more contemporary matters. Still, even when such support is not plainly required, Steuart is inexpicably drawn back to the same issues treated above, though perhaps in more forceful language in the second iteration. Though Steuart is, as we have seen, willing to admit both the positive and negative consequences of the social and economic transformations that preceeded his own era, he regards a return to economic simplicity as an impossibility. Plainly put, "[s]chemes for recalling ancient simplicity and making mankind honest and virtuous are beautiful speculations: I admire them as much as any body, but not enough to believe them practicable in our degenerate age."[43] To say that Steuart's valuation of his own age was tempered is to put it mildly. One finds in the *Inquiry* no rosy account of the virtues of the age, but rather a coldly honest, and at times mechanistic, picture of society; its virtues and faults often inseparable. We suggest that it is this quality in Steuart's writing – more than any brief allusions to the principle of effective demand, or endogenous money – that ought to render him more than a footnote in the history of economic thought.

Still later Steuart returns to the centrality of agriculture. We find that "[a]griculture is, without a doubt, the foundation of multiplication, which must ever be in proportion to it."[44] It should be clarified that Steuart does not regard this multiplication of population as a virtue in and of itself. If, with the expansion of population, new members of society are only able to provide for their own subsistence, no advantage would be realized. A growing population is only advantageous insofar as the *surplus* that is produced expands. Again it is evident to Steuart that such a state of affairs will not arise naturally in society. On the contrary:

[42] Ibid, p. 63.
[43] Ibid, p. 76.
[44] Ibid, p. 87.

> The best way of binding a free society together is by multiplying the reciprocal obligations, and *creating* a general dependence between all its members. This cannot be better effected than by appropriating a certain number of inhabitants, for the quantity of food required by all, and distributing the remainder into proper classes for supplying every other want.[45]

Nowhere in Steuart's work do we find an unqualified assertion that capitalism, or commercial society, simply arose once the fetters of the feudal order had been removed. Instead, we are constantly reminded that such a transformation had to be actively effected in Britain, and that statesmen on the Continent wishing to emulate this process should enact a definite set of policies. Absent this direct State intervention, there is no reason, Steuart suggests, to suppose that a robust market, underpinned by a system of 'reciprocal obligations,' will come into being and ensure the industry and employment of the population.

1.4 Steuart on Value

As we have noted previously, a certain eclecticism is manifest throughout Steuart's work, a feature which lends significant depth to his historical analysis, while simultaneously frustrating attempts to classify him as either a wholly Mercantilist or Classical thinker. That there exists no clear consensus in the literature on the essentials of Steuart's theory of value should then come as little surprise. The ambiguities in Steuart's treatment of value have predictably spawned widely divergent interpretations in the literature. In a recent attempt to provide a rigorous mathematical version of Steuart's system, Hong-Seok Yang argues that despite Steuart's definitions, his primary concern is with market prices and relative profits.[46] In treating Steuart's conception of positive profits, Yang argues that the three determinants of the real value of a commodity can ultimately be resolved into the price of subsistence. The prices of subsistence goods are, in turn, regulated by the price of land, leading Yang to contend that Steuart's is a *land* theory of value. Alternately, Anastassios Karayiannis argues that Steuart adopts a "quasi-labor theory of value." That is, he emphasizes necessary labor time as a prime determinant of the real value of a commodity, while maintaining that the wage rate is a labor market determination influenced primarily by demand.[47] What is surprising, in turning to this discussion, is the apparent confusion on the part of some commentators between the central categories of 'value' and 'price.' Undoubtedly, we find in the *Inquiry* a unique and nuanced mechanism by which short-run market prices are determined which is worthy of careful examination.[48] One fears, however, that this discussion has too often distracted

[45] Ibid, p. 89. My italics.
[46] Yang 1994, p. 30-8.
[47] Karayiannis 1991.
[48] Ramón Tortajda has repeatedly offered a clear exposition of this aspect of Steuart's theory whereby the level of

attention from Steuart's theory of value, to which we now turn.

At the outset of Steuart's discussion of price determination, he tells us that "[i]n the price of goods, I consider two things as really existing, and quite different from one another; to wit; the *real value* of the commodity, and the *profit upon alienation*."[49] The real value of a commodity is, for Steuart, based upon its costs of production. Arriving at the real value of a commodity then requires that three variables be known: The average labor time necessary to produce the commodity, "the value of the workman's subsistence and necessary expense," and the value of raw materials that enter into the process of production. The real value of the commodity serves as a lower bounds for market prices, and as the baseline against which 'profit upon alienation' can be measured. As Steuart clearly notes:

> In every transaction between merchants, the profit resulting from the sale must be exactly distinguished from the value of the merchandise. The first may vary, the last never can. It is this profit alone which can be influenced by competition; and it is for this reason we find such uniformity everywhere in the prices of goods of the same quality.[50]

Moreover, as Marx was to highlight, Steuart drew a clear distinction between two types of profit: positive and relative. Positive profit "impli[ed] no loss to any body; it results from an augmentation of labour, industry, or ingenuity." That is, positive profit was the result of social and technological developments that allowed society as a whole to produce a greater surplus product. Relative profits, on the other hand, merely denoted "a vibration of the balance of wealth between parties, but. . . no addition to the general stock." Having distinguished the two 'types' of profit in this way, Steuart insists that profits accruing to the individual manufacturer will be always be *relative* profits, determined by the level of demand. At the same time, he maintains that such profits do not represent a positive net increase in the wealth of society. It was on this account that Marx concluded that Steuart was the "*rational* expression of the Monetary and Mercantile systems."[51] From our vantage point, such a clear classification of Steuart as either Classical or pre-Classical appears more difficult, rejecting as he does a purely exchange-centric view of profits, while failing to offer a coherent alternative. Plainly though, as Ronald Meek was to argue, "Steuart was not quite as far removed from the Classical position as he is usually made out to have been...[H]e was clearly feeling his way forward from a mere supply and demand approach towards the Classical approach to the value problem."[52] While one should be careful not to overstate the 'Classical' aspects of Steuart's approach to value, we should insist along with Marx that Steuart's work was a clear advancement in the approach value

'relative profit' in each individual market is determined. See Tortajada 1999, and Menudo 2009.

[49] Steuart 1966, p. 159. My italics.

[50] Ibid, p. 174.

[51] Marx 1963, Vol. I, p. 43.

[52] Meek 1958, p. 297-8.

and profit, his lengthy discussion of market prices notwithstanding.

1.5 A Scotsman in Frankfurt

At this point, the reader might reasonably question the relevance of studying Steuart's theory of history, and his conception of value. Apart from an interest in academic curiosities, there might appear to be little value in exploring such a long-forgotten system. One immediate answer is that Steuart's contemporary influence was far greater than is generally appreciated. Upon its initial publication in 1767, Steuart's *Inquiry* sold well, and generally garnered favorable reviews.[53] That Steuart was hired in 1772 as a consultant for the East India Company – a position for which Adam Smith also competed – is further testimony to the esteem in which Steuart was held.[54]

Beyond these indications of domestic approval, Steuart's *Inquiry* appeared in multiple translations and enjoyed wide circulation on the Continent. Among the figures that devoted substantial attention to Steuart's work was G.W.F. Hegel. While much has been made of Hegel's study of Adam Smith and political economy in general during his time in Jena, his first studies in economics began much earlier. We know from one of Hegel's favored pupils (and first biographer), Johann Rosenkranz, that he first took up the study of political economy in 1799, while still in Frankfurt. The primary object of his study was Steuart's *Inquiry*, to which he devoted nearly six months time in producing a commentary on a German translation which had recently been published. Though the text of this commentary has been lost to history, Rosenkranz forcefully noted the importance of the text. He contends that "[a]ll of Hegel's ideas about the nature of civil society, about need and labour, about the division of labour and the wealth of the estates, about poverty, police, taxation, etc., are finally concentrated in a commentary on the German translation of Steuart's book on political economy...It contains a number of magnificent insights into politics and history and many subtle observations."[55] While the contemporary influence of Steuart's history of capitalism is not our immediate topic, the significance of Steuart's work is only magnified if we argue for its impact on Hegel. A more thorough investigation of this interrelation is beyond the scope of this paper, but we might appeal to the conclusions of Georg Lukács in his much neglected study of *The Young Hegel.* Here Lukács champions the view that:

> Steuart was, as Marx shows, the real historian of economics among the classics; he was more interested in the social origins of capitalism than its inner workings...[A]t this stage in Hegel's career, when he was concerned to establish the historical necessity of bourgeois society, the sheer volume of information in Steuart's work and the constant comparisons

[53] Anderson 1984, p. 466.
[54] Sen 1947, p. 19.
[55] Quoted in Lukács 1976, p. 170.

between ancient and modern economies must have made a deep impression on him.[56]

So bold is this suggestion that one is at first tempted to regard it as little more than an over-reaching inference on the part of Lukács. More recent scholarship, however, has echoed Lukács' view on this issue, though Lukács is rarely, if ever, given credit as the originator of this interpretation. In particular, the work of Paul Chamley, though never appearing in English translations, seconds this view.[57] Chamley argues that Hegel's study of Steuart's *Inquiry* proved decisive not only in his earlier work in Frankfurt, but for the development of the system of *The Phenomenology of Mind.* In keeping with his Aristotelian affinities, Hegel never fully abandoned a vision of labor as a subordinant or somehow inferior activity, though clear changes in his vision of labor may be observed. The most pronounced change in Hegel's approach, following his reading of Steuart, lies in his theory of the State itself. Whereas previously Hegel had tended to treat the State nearly as a 'natural' feature of all human societies, he came to recognize that production of a surplus was a prerequisite for any level of social differentiation, and thus for any hierarchical political structure. While this basic insight is certainly not unique to Steuart – the works of Antiquity, and those of Aristotle in particular, offer numerous demonstrations of the concept – the emphasis placed on it by Steuart would seem to have left a distinct impression on Hegel. Moreover, Steuart seems to not only have motivated a 'turn' in Hegel's thought, but to have served as a continual point of reference. For instance, in his introduction to the *Philosophy of History,* we find the statement:

> For us, then, a people is primarily a spiritual individual. We do not emphasize the external aspects but concentrate on what has been called the spirit of a people. We mean its consciousness of itself, of its own truth, its own essence, the spiritual powers which live and rule in it. The universal which manifests itself in the State and is known in it – the form under which everything that is, is subsumed – is that which constitutes the culture of a nation. The definite content which receives this universal form and is contained in the concrete actuality of the state is the spirit of the people. The actual state is animated by this spirit in all its particular affairs, wars, institutions, etc.[58]

Though 'spirit' (*giest*) is, of course, an endlessly recurrent term of Hegel's, the specific usage here is different. While no author is directly cited, the phrase 'what has been called' would seem to permit the claim that Hegel was drawing upon Steuart's concept, particularly given the similarity of their definitions.

Space here precludes anything like a full exposition of these issues, but the reader ought to bear in mind that the above example is but one of many cases in which Hegel might be seen to draw upon Steuart. For instance, following Steuart, Hegel came to regard the gradual disappearance of slavery

[56] Lukács 1976, p. 174-5.
[57] Chamley 1963.
[58] Hegel 1953, p. 52. One should recall that Hegel's *Lectures on the Philosophy of History* were published posthumously, and were derived from an amalgam of Hegel's own lecture notes and those of his students. The referenced quotation first appeared only in the 3rd edition.

in human economic activity as a fundamental change, one that truly unleashed the forces of economic and political development.[59] That is, it was the genesis of Steuart's 'free hands,' able to populate the cities and not directly tied to subsistence production, that furnished the material conditions for the development of the State. As Hegel understands freedom as something achieved only through the progressive historical development of the State through history – that is, Hegel defines freedom in its negative sense of 'freedom from' – his increasing appreciation of the economic dimension of social life pushed him beyond the earlier simplistic theory that the State was simply the expression of the Reason with which the subject-object of history is naturally endowed. That Hegel's mature work was shaped by his reading of early political economy is far from a new suggestion. We recall it here to suggest that Steuart's influence on Marx may have been two-fold, acting through Marx's direct reading of the *Inquiry*, as well as at a more foundational level through the impact of Steuart's theory of history on Hegel.

1.6 Conclusions

The volume of scholarly interest in James Steuart's work has undoubtedly risen over the past decades, and has certainly rendered him less of a marginal figure than he once was. Despite this, an appreciation of his contributions to the development of political economy remains confined to the specialist literature. This is regrettable on a number of levels. Without hyperbole, Steuart was a pioneer for a variety of heterodox traditions. If Steuart's only virtue as an economic thinker was his unique treatment of history, or further if his thought had achieved no immediate impact on his peers, his relative neglect in scholarship would still appear curious. That his theory of history exists alongside insights on the role of effective demand, and the principle of endogenous money[60], renders his contemporary obscurity inexplicable.

While constraints of space here preclude such a discussion, James Steuart's largely unrecognized influence on Hegel also points to a much deeper interrelation between classical political economy and the philosophical movements that coincided with it. In particular, Marx's admixture of political economy and German Idealism – producing the synthetic result of dialectical materialism – appears, not so much as an 'inversion' of Hegel's method, as a reclamation and re-exposition of Hegel's own intellectual influences. Steuart should therefore be seen as much more than a footnote in the

[59] Ege 1999, p. 108-9.

[60] Steuart's relationship to the real bills doctrine should be of particular interest. Though a few studies have used the *Inquiry* to examine Steuart's views on money, his earlier works, such as *Dissertation upon the Doctrine and Principles of Money applied to the German Coin* (1758), remain largely unexamined.

history of economic thought. Rather, Marxist political economy should appreciate Steuart as the ‘real historian among the Classicals.’

2 A SCHOOL WORTH SAVING?: WILHELM ROSCHER AND THE ORIGINS OF MARGINALISM

The regular reader of surveys of the history of economic thought may have noticed a pattern in the introductory material of these works. Again and again, one encounters cautions against 'determinist' historiography, reminders that the history of economic thought should been seen as more than a litany of errors and mis-steps that have led us towards modern theory. This should come as little surprise, as the belief that economic theory has not followed a continually ascendant linear path towards scientific truth is perhaps the singular article of faith that binds together the many disparate heterodox 'schools of thought.' To (mis)appropriate Walter Benjamin's phrase, the heterodox historian of thought therefore "regards it as his task to brush history against the grain."[61] To this end, recent scholarship has brought to the attention of a wider audience numerous theoretical and methodological debates that had previously suffered undue neglect, yielding a richer and more diverse history of thought. Insofar as this project reminds us of the 'darkspots' in mainstream theory, and is suggestive of alternatives, it is to be commended.

One fears, however, that in this drive to reclaim alternative paradigms in the history of thought, otherwise vocal and incisive critics appear restrained, if not mute. The existing literature surveying the German Historical School (GHS) represents one such critical vacuum. At one (superficial) level, the inductive method of the German Historical School would seem to offer a striking counter-point to ahistorical modern mainstream theory. This belief has prompted one recent account to claim that "[the German Historical School] serves as a reminder of what we have lost and what has yet to be regained as far as economic orthodoxy is concerned."[62] Against this, one should argue that the insights of the Historical School, though not wholly without merit, have been greatly over-stated. History undoubtedly has a central role to play in the reconstruction of modern theory, but not simply as passive data. As a more careful study of the German Historical School demonstrates, the inclusion of historical material does not, in and of itself, improve economic theory. Nor should we

[61] Benjamin, p. 257.
[62] Milonakis and Fine, p. 72.

subscribe to the position of Geoffrey Hodgson that the study of history is primarily a reminder of the "historical specificity" of all theory.[63] Rather, if we are to grasp the specificity of any historical era, we first need a theory of history.

The approach of this paper is divided as follows: First, a reassessment of the German Historical School is offered, focusing attention primarily on its founder, Wilhelm Roscher. Having outlined Roscher's approach to historical economics, we survey the alternative approach of one of Roscher's contemporaries: Richard Jones. Here, following Marx, we argue that in Jones' system we find a much richer approach to historical economics, one that has been overshadowed by the School of Roscher and Schmoller. Finally, we suggest that the critique of Roscher presented here can reasonably be extended to so-called New Economic History; one is tempted to claim that Roscher is the true 'grandfather' of this approach.

2.1 Continuity in the German Historical School?

Before turning to a more careful dissection of the GHS's 'alternative' vision of economic theory, we ought to first provide the commonplace definition of the term. Typically, the School has been divided into two generations: 'the Older' and 'the Younger.' The Older School is comprised of the works of Wilhelm Roscher – commonly credited as the founder of the School – along with those of Carl Knies, and Hildebrand.[64] The younger faction of the School was inaugurated by Gustav Schmoller, and came to encompass much of the German academy after the unification in 1871.[65] As with any academic tradition extending for nearly a century, one might be wary of such a singular label as *the GHS*. Indeed, this was the position taken by Joseph Schumpeter who noted that "they did not form a school in our sense...and their relation to economic history was neither uniform nor very different from that of a host of economists of all ages."[66] Though Schumpeter's position on the GHS by no means constitutes the orthodoxy on the subject, one finds echoes of it in the contemporary literature. In a recent survey, Erik Grimmer-Solem has gone so far as to claim that "[a]s it turns out, no single method, research subject, or political orientation united the scholarship of the so-called 'German

[63] Hodgson, p. 23.

[64] Max Weber tells us that "[n]owadays it is usual to name Karl Knies and Bruno Hildebrand together with Wilhelm Roscher as founders of the 'historical school."' Weber, p. 1.

[65] See for instance, Tribe 2002. Crucially, for Tribe, "all these economists explicitly identified themselves as members of a 'historical school'...a minimum criterion for grouping writers in this way." (p. 1-2). The School has sometimes been extended to encompass the generation of Max Weber, and Werner Sombart as well.

[66] Schumpeter, p. 808. Here we should note that Schumpeter defines a school as a concrete 'sociological phenomenon.' A 'school' is not, for Schumpeter, a label which can be assigned posthumously to a selected group of thinkers that operated within a certain Kuhnian paradigm of 'normal science.' For instance, in defining the Ricardians as a "genuine school in our sense," Schumpeter tells us that "there was one master, one doctrine, personal coherence; there was a core; there were zones of influence; there were fringe ends" (p. 470). Heath Pearson, whose contribution is discussed below, seems to improperly conflate the Kuhnian and Schumpeterian definitions of a 'school.'

Historical School."'[67] Such warnings are not without merit. The 'school of thought' label might, for instance, mask the diversity of thought within the GHS, or otherwise overstate the continuity of thought amongst members. Such concerns have been raised forcefully by Heath Pearson, who insists that "the heterodox movement that we have learned to call the German Historical School was in reality neither German, nor historical, nor a school." Here, Pearson first claims that the method and work produced by the school is poorly described by the label 'historical.' As he rightly notes, it would be an absurdity to use the term 'historical' in contradistinction to the 'ahistorical' method of Scottish political economy. Accepting this point, Pearson notes that members of the 'older School' produced few historical monographs, and instead merely illustrated their theoretical work with historical examples. It was then only with Schmoller that the School began to produce work akin to that of 'true' historians. Taken as a statement of fact, one can raise little objection here. It is Pearson's conclusion – that the label 'historical' should be rejected – that seems hasty. As we are given by Pearson no explicit definition of the term 'historical,' such a definition must be pieced together. The term seems to imply a resemblance to the work of historians, or "substantial acceptance within the guild of historians proper."[68] Pearson concludes that a more accurate label for the School would be "evolutionary," "institutional," or "cultural economics."[69] It is at this point that Pearson makes one of his underlying objectives clear:

> most of all, by reconceptualizing the GHSE we may reasonably hope to right the most glaring of historiographical wrongs, namely the divorce of this school from the Marxian system. Karl Marx and the GHSE held one another in mutual contempt, to be sure, but theirs was the hostility of close relatives.[70]

On this count, we are told that the traditional interpretation has been that Marx rejected G.F.W. Hegel's philosophy of history, while the GHS largely accepted it. Pearson instead informs us that Marx retained a "substantial residuum of teleological and metaphysical reason," while the members of the GHS were generally critical of German Idealism. Pearson concludes that once we have swept away the label of 'GHS,' it is clear that Marx and members of the GHS shared a strong "analytical affinity." It is this proposition, above all else, that our present paper rejects in the strongest of possible terms, for reasons that will be outlined below.

Against this line of reasoning, Keith Tribe, who has produced significant histories of the evolution of German economics, has insisted that there was a distinct body of thought constituting the

[67] Grimmer-Solem, p. 25. Grimmer-Solem's introductory essay, 'What Was the Historical School?' contains a useful summary of the state of the debate.

[68] Pearson, p. 551

[69] If we accept Pearson's preferred labels, his work appears somewhat contradictory. That is, Pearson accepts that this diverse group of thinkers had a common method which we can label, and yet were not a 'school' in that they were not "like-minded that they not only agree on the relevant questions, but tend also to arrive at the same answers" (557).

[70] Ibid, p. 555

GHS. For Tribe, "[i]dentification with 'historical economics' implies a critique of a prevailing orthodoxy...What therefore unites all those concerned with the project of a historical economics, then and now, is an allegiance to an inductive, empiricist approach to economic theory, and hostility to a deductive, axiomatic economics."[71] Geoffrey Hodgson also explicitly dismisses Pearson's analysis, noting that "with the overly strict criteria that he used to demarcate a 'school,' it would be difficult to identify any single school of economics in the history of the subject."[72] In Hodgson's view, while the GHS may have lacked a distinctive and unifying method, it is their shared recognition of the historical specificity of theory that allows them to be grouped as a school. It is this latter view that seems to have carried the day with regard to textbook presentations of the history of economic thought.[73]

It seems evident that much of this debate results from the lack of a common definition of a school. The position taken in this paper is somewhat different from those outlined above. While it remains analytically useful to retain the label 'GHS,' particularly given the willingness of its members to self-identify as such, the theoretical objectives of the school ought to be more closely examined. What emerges from such a re-examination is recognition that Roscher, and the Historical School generally, were in no way opposed to universal economic laws, and categories. Indeed, what we find in Roscher is the assertion that the economic modernity to which he was witness was a realization of such universal laws.

2.2 An Outline of Roscher's Method

As we have noted above, the genesis of the German Historical School is typically traced to the publication of Roscher's *Grundriss zu Voriesungen über die Staatswirtschaft nach geschichtlicher Methode,* first published in 1843. It was in this work that Roscher first drew his famous distinction between the two possible methods that could be used to describe reality: the philosophical, and the historical. We are told that "[t]he philosopher wants a system of concepts or propositions that is as abstract as possible, i.e. stripped of all possible chance, [of all] liabilities of space (*raumes)* and time (*zeit*); the historian, by constrast, wants a description of human development and relationships, reproduced as faithfully as possible to real life."[74] That is, Roscher defines the philosophical method as the search for abstractions of the greatest possible generality. By contrast, the historical method is seen as a mirror of reality, able to reflect the specificities of any given historical period. Roscher

[71] Tribe 2002, p. 1.
[72] Hodgson 2001, p. 56n
[73] Alessandro Roncaglia's text, in its discussion of Menger and the origins of the Austrian School text, is a notable exception to this trend. See Roncaglia 2006, p. 297-306.
[74] Roscher 1843, p. 1. All translations from the *Grundriss* that follow are my own.

argues that the application of the historical method "will achieve for political economy something similar to what Savigny's method realized for jurisprudence."[75] While not wishing to make too great a detour, it will serve our thesis to examine this claim more closely. Roscher's reference here is to the German Historical School or Jurisprudence (GHSJ), an early 19th century school of jurisprudence inaugurated by Gustav Hugo, and popularized by Friedrich Carl von Savigny. While some authors have regarded Roscher's attempt to link his method with that of the Historical School of Jurisprudence as superficial, claiming that "Roscher's historical method...had little to do with the Savigny-Eichhorn approach," this seems a hasty dismissal.[76] Savigny's basic proposal with respect to jurisprudence was that the law of a given country evolved as an organic expression of the spirit of a nation's people (*volkgeist*). In Savigny's terms, "all law is originally formed in the manner in which. . . customary law is said to have formed: i.e., that it is first developed by custom and popular faith, next by jurisprudence; everywhere, therefore, by internal silently-operating powers, not by the arbitrary will of a law-giver."[77] It should be understood that Savigny's position was essentially reactionary; that is, his proposal that law in its present state naturally reflected the specific needs of the people stood in stark contrast to the calls of his contemporaries, following the withdrawal of Napoleon in 1814, for a unified civil code for all of Germany. For Savigny, a universal code, or conception of right could not be derived simply from reason, and attempts on the part of German legislators, inspired by the Napoleonic Code, to impose a new system from above, would necessarily be folly. From a political standpoint, Savigny was, as one scholar has put it, "immediately successful in persuading German legal scholars to abandon their precipitate embrace of the Code Napoleon, and to explore the medieval and Roman roots of their own law."[78]

While Savigny won the day politically, a fierce academic debate continued to rage around the GHSJ. Perhaps the most vehement opponent of this school of thought was G.W.F. Hegel, and his *Philosophy of Right* should be seen as an explicit attack upon the GHSJ. As Hegel argued in a lecture given in 1818, the position of the Historical School was born out "of the necessity of justifying the existing state of law."[79] In the Introduction to the *Philosophy of Right,* Hegel devotes substantial energy in refuting the method of the Historical School. As we are told:

> A phase of right may be shown to rest upon and follow from the circumstances and existing institutions of right, and yet may be absolutely unreasonable and void of right. . . Such

[75]Ibid, p. v. In this passage, Roscher goes on to note how far removed the Ricardian school is from his own historical method. He then notes that the historical method is closer to that of Malthus and Rau.

[76]Lindenfeld 1993, p. 406. Pearson (1999) calls Roscher's claim a "masterstroke of marketing," but apparently little more. (p. 548)

[77]Savigny 1831, p. 20.

[78]Rodes 2004, p. 166.

[79]Quoted in Klenner, Hermann. "Savigny's Research Program of the Historical School of Law and Its Intellectual Impact in 19th Century Berlin." *The American Journal of Comparative Law*, Vol. 37, No. 1 (Winter, 1989). p. 76.

> a demonstration and deduction from nearer or more remote historic causes, which is the occupation of pragmatic history, is frequently called exposition, or preferably conception, under the opinion that in such an indication of the historic elements is found all that is essential to a conception of law and institutions of right. In point of fact that which is truly essential, the conception of the matter, has not been so much as mentioned... By neglect of the distinction, just alluded to, the true standpoint is obscured and the question of a valid justification is shifted into a justification based upon circumstances.[80]

The basic error of the GHSJ is, for Hegel, that the existing legal code is justified merely on the basis on having evolved historically. As Hegel rightly surmises, the lineage of any modern institution can be traced through history, and thereby presented as an organic outgrowth of the culture and habits of a people. This is, however, a mystification. The mere fact that an institution has a history is not a sufficient, or legitimate defense of its existence in the present. Against claims that Roscher's method had little in common with that of the GHSJ, we will see that Roscher wielded the historical method as a device to legitimize contemporary economic institutions.

Though the *Grundriss* was one of Roscher's first published work on political economy, and a text that he utilized in his role as a lecturer, it is commonly noted that Roscher's published works are marked by a great deal of theoretical and methodological continuity.[81] Consequently, our discussion focuses attention on Roscher's *Grundlagen der National Ökonomie,* first published in 1854. In its mode of presentation, and at a theoretical level, the *Grundlagen* does not differ radically from the material presented in K.H. Rau's *Lehrbuch der politischen Oekonomie*. Rau's textbook, the first volume and edition of which appeared in 1826, offered an uncritical presentation on British political economy, focusing on the contributions of Adam Smith and David Ricardo, though he did reject the latter's theory of value.[82] In Keith Tribe's estimation, while Rau offered few original theoretical contributions, the text was 'seminal' for German political economy in the sense that it departed from the cameralistic tradition, and was "the first new systematization to incorporate the German post-Smithian orthodoxy."[83] Erich Streissler, by contrast, has argued that Rau was far more original in his price theory than is generally appreciated, and notes that Rau set the standard "sequence of subjects," in moving in his textbook from goods, to wants, and finally economy, that was to be followed by both Roscher and ultimately Menger.[84]

[80] Hegel 1952, Introduction, §3R.

[81] See for instance, Giouras 1995, p. 107. Giouras goes on to note that "in certain places whole paragraphs of older works are being simply repeated." See also Ikeda 2000, p. 35-53, and Perlman and McCann 1998, p. 416-7.

[82] Schumpeter remarked that Rau "certainly had sound common sense, learning, and mediocrity. But if any other qualities are needed for the production of a sucessful textbook, he must have had them also" (503, footnote). In this case, Schumpeter likely overstates Rau's mediocrity. Mark Blaug notes that the fourth edition of Rau's *Grundsätze* 1844 contained supply and demand curves; an innovation for which only Cournot could claim priority! Blaug 1997, p. 293.

[83] Tribe 1988, p. 194.

[84] Streissler 1990, p. 31-68. Streiessler, in another paper, also argues that Roscher's *Grundlagen* ought to be considered as one of the most sucessful economics textbooks ever written, appearing in 26 editions between 1854 and 1926. Streissler 2001, p. 316.

What then was the mode of presentation? At the outset of the *Grundlagen,* we are introduced to Roscher's conception of economic goods and value. Natural substances and the products of production become goods only when their use-value is recognized, and that use-value fulfills a definite human need.[85] In their 'natural' state, human beings are taken to be socially isolated, and thus are seen to carry out their economic activity independently. More developed systems of exchange are, in his system, the inevitable product of the multiplication, and increasing diversity, of human wants. Further, *economic* goods are distinguished from the broader genus of goods in that they are actively exchanged. Hence, for Roscher, "as a rule, with an advance in civilization, there is an increase in the number of goods, which become economic goods."[86] In turning to the question of value, though recognized use-value is the *sine qua non* of exchange-value, scarcity is seen as the prime determinant of value in exchange.[87]A little later, we are given a clear statement of the nature of economic activity. We find that "all normal economy aims at securing a maximum of personal advantage with a minimum cost or outlay." In their economic activity, human beings are driven by two 'intellectual incentives": self-interest and conscience. Roscher calls this second motive "God's voice within us", something that bounds the pure operation of self interest.[88] What is crucial to note, for our purposes, is that none of these trans-historical principles derive from an application of Roscher's 'historical method.'

In moving to a definition of political economy (*nationalökonomie*), we are told that the State itself is best treated as an organic totality or an "organism."[89] The treatment of the State as an organic entity serves two purposes for Roscher. First, in suggesting that the State is analogous to a living thing, Roscher is able to claim that any State will naturally have a period of youth, maturity, and decline. Second, and more importantly, the organistic treatment of the State and economic life allows Roscher to argue that "[t]he public economy of a people has its origin simultaneously with the people. It is neither the invention of man nor the revelation of God... every independent household management contains the germs of all politico-economical activity."[90] Such a treatment of modern economic life as a 'mature' expression of human essence necessarily precludes any substantive critique of modernity, a conclusion that Roscher would seem happy to draw. Importantly, the parallel between this basic methodological claim, and the method of the GHSJ discussed above, should be

[85]Roscher 1854, p. 53
[86]Ibid, p. 55.
[87]Ibid, p. 61-4.
[88]Ibid, p. 73-5. On this point, Roscher approvingly cites the moral philosophers of the Scottish Enlightenment (A. Smith, D. Hume, F. Hutcheson), and recalls the familiar Smithian example that there are institutions and public works that would never be produced if humans were guided solely by self-interest.
[89]For a full discussion of this aspect of Roscher's method, see Krabbe, p. 159-70.
[90]Roscher 1854, p. 84. Here, Roscher approvingly quotes Aristotle's definition of man as a *zoon politikon.*

apparent. Both Schools treat the laws or economic life of modernity as an unsullied manifestation of the essence of a nation's people.

We also find that political economy has two primary objects of study: the State as a thing in itself, as well as individuals and their consumption choices.[91] It is in this section, where we find Roscher's comments on historical methodology, that the dangers of a selective reading of Roscher come to the fore. For instance, we find reminders that the attribution of unilinear causality in the social sciences is always deeply problematic, as "most important simultaneous events or phenomena mutually condition one another."[92] Moreover, to Roscher, it is this mis-step that has too often been characteristic of historians.[93] Given such comments, one expects to find something radically different in Roscher's own method and approach to economic theory. The reader, however, meets with just the opposite; indeed, Roscher's presentation seems almost schizophrenic. In one statement, Roscher argues that political economists are incapable of elaborating a single ideal system of economic organization that would apply to all peoples. Instead, the political economist "if he would be perfectly true, and at the same time practical, place in juxta position as many different ideals as there are different types of people."[94] Such a statement, taken alone, would seem to place Roscher squarely in the company of James Steuart and Frederick List, given their shared aversion to universal economic laws. On the very next page, Roscher describes the central tenets of the 'historical method,' the distinctive features of which are not readily apparent. Against such ideal systems described above, Roscher insists that, "[o]ur aim is simply to describe man's economic nature and economic wants, to investigate the laws and the character of the institutions which are adapted to the satisfaction of these wants."[95] The prime virtue of this method being that "[o]nce the natural laws of Political Economy are sufficiently known and recognized all that is needed, in any given instance, is more exact and reliable statistics of the fact involved, to reconcile all party controversies on questions of the politics of public economy."[96] Though Roscher admits some doubt as to the possibility of ever achieving such 'pure' theoretical laws, the goal of political economy should still be the derivation of natural laws akin to those of physics.

Nowhere are the ambiguities and confusions of Roscher's system more recurrent than in his treatment of capital. At first, we are informed by Roscher that capital results primarily from an

[91] Roscher's comparative study of the methods applied in political economy is concentrated in: Roscher 1854, p. 81-116

[92] Ibid, p. 81

[93] "All first class historians have thus explained historical phenomena. The one-sided deduction of A from B... is the result of overlooking all reciprocal action." Ibid, p. 82 footnote.

[94] Ibid, p. 110. Indeed, James Steuart's definition of political economy, with which he opens his *Inquiry into the Principles of Political Economy*, is explicitly cited here.

[95] Ibid, p. 111

[96] Ibid, p. 112-3.

act of savings which withdraws products from immediate consumption. Futher, capital is seen by Roscher as the tangible thread which links acts of production together through time.[97] On this point, Nassau Senior's remark that "[t]here is not a nail in all of England which cannot directly or indirectly be traced back to savings made before the Norman conquest" is quoted approvingly.[98] Surprisingly, we then find something of a critical history of the 'birth' of capital. Roscher contends that in the lower stages of civilization, savings is largely an alien principle, with production directed almost exclusively towards immediate consumption. Civilizations that have reached higher stages of development are therefore tasked with inculcating the practice of savings amongst peoples at 'lower' stages of development. Consequently, "[i]n the lowest stages of civilization, the first saving of capital of any importance is effected frequently through robbery or in the way of slavery."[99] Again, this comment taken on its own would seem to lend support to a more heterodox interpretation of Roscher, given its easy resemblance to Marx's conception of primitive accumulation. Quickly though, we are supplied with a much different understanding of capital. In outlining the 'cooperation' of the three factors in any act of production, we find that "[i]t is very seldom that any thing can be produced without capital. Even the poorest gatherer of wild berries needs a basket and must be clothed. Were there no capital, every individual would have to begin at the very beginning every moment."[100]

It is this proto-Austrian treatment of capital that dominates Roscher's work. Interest is always and everywhere a legitimate charge in light of both the real productivity of capital, and subjective abstinence from consumption.[101] Though Roscher proposes that the market-rate of interest is largely governed by the scarcity of capital, the prevailing rate of interest corresponds to the marginal productivity of the last unit of capital employed. In Roscher's terms, "[t]he deciding element, therefore, is the yield of the least productive investment of capital which must be made to employ all the capital seeking employment. This least productive employment of capital must determine the rate of interest customary in a country precisely as cost of production on the most unfavorable land determines the price of corn."[102] Following this logic, Roscher notes that with the advance of civilization, and the growth of population, the rate of interest has tended to decline. This treatment,

[97]Ibid, p. 160

[98]Quoted in Ibid, p. 164-5.

[99]Ibid, p. 161.

[100]Ibid, p. 164.

[101]Ibid, Book II, p. 125.

[102]Ibid, Book II, p. 106-7. Somewhat later, Roscher considers a 'historical' example of the determination of the rate of interest. Here, Roscher considers a 'primitive' fisherman who, solely through the expenditure of labor in the present, catches three fish per day, which he directly consumes. Capital, as Roscher defines it, could come into being if the fisherman was able to reduce his daily production/consumption to two fish per day, and thus devote some of his labor time to the construction of a boat and a net. If, with the aid of this newly created capital the fisherman was then able to catch thirty fish per day, the upper and lower bounds of the rate of interest on this capital could be determined. The lower bounds would be equal merely to the wear and tear involved in the use of this capital, while the upper bounds would be the surplus of 27 fish that the capital 'produces.' The prevailing rate of interest, governed by the forces of supply and demand, will lie somewhere between these bounds. Ibid, Book II, p. 126.

where marginal productivity governs distribution, might be dismissed as an anomalous statement, except that Roscher maintains that much the same force is at work regulating wages. In Roscher's text, "the additional product in any branch of industry, due to the labor of the workman last employed, has a controlling influence on the rate of the wages which can be paid to his fellow workmen." In normal circumstances then, the marginal productivity of the last worker employed sets the upper-bounds for the wage rate.[103]

Finally, what we find in Roscher's statements would seem to suggest that relative factor scarcity determines the technique of production. Take, for instance, Roscher's statement that, "[w]hen one of the three branches of income has grown as compared with the others; in other words, when the factor of production which it represents has become relatively dearer, it is to the interest of the undertaker and of the public, that it should be replaced where possible by another and cheaper productive force. On this depends the advantageousness of intensive agriculture (high farming) in every higher stage of civilization. There land is dear and labor cheap."[104] As a consequence, at this stage of development, 'labor-intensive' techniques of production are adopted. Conversely, "in England, where the rate of interest is low and wages high, labor is readily supplanted by capital."[105]

From the above illustrations, it should be evident that what we find in Roscher is *not* an insistence on the historical specificity of all theory. Rather, we should take Roscher at his word: what he proposes is that the "natural laws of Political Economy" can be applied to all historical eras. These natural laws, as outlined by Roscher, are not, however, akin to those of Classical theory. Instead, what we encounter in Roscher's theory is what Marx would term 'vulgar economics,' or what Erich Striessler has called "proto-neoclassical."[106]

2.3 Towards a Critique of the 'Older' Historical School

Having outlined Roscher's historical method as it impacted his economic theory, we are equipped to reassess whether the invectives that Marx frequently directed against Roscher were merely part of the squabbles of a 'close relative,' or a more substantive critique. Of course, Marx was never want to spare his intellectual opponents. Yet even bearing this in mind, there is a vehemence in Marx's comments on Roscher perhaps only equalled in his comments on J.B. Say. Marx's most direct and extended reference to the GHS, and Roscher specifically, is found in his treatment of 'vulgar economists' in *Theories of Surplus Value*. Here we should take care in noting the distinction drawn

[103] Ibid, Book II, p. 52.
[104] Ibid, Book II, p. 157
[105] Ibid, Book II, p. 157-8.
[106] Striessler 1990. p. 32.

by Marx between Classical and Vulgar political economy. Any use of what we would today call 'factors of production' is, for Marx, an exercise in fetishistic mystification insofar as land, labor, and capital are treated as the *sources* of revenue. The extreme case, what Marx calls the 'consummate automatic fetish' is that of interest-bearing capital, wherein money is seen to self-reproduce.[107] What characterized Classical political economy as such, was the attempt to understand these forms not as independent sources of value, but as inextricably interconnected.[108] This is the virtuous aspect of Classical economists that marks them as worthy of study, though their work is not without its contradictions. Indeed, the multiplication of such contradictions is a marker of the advance of the science. The Classicals' principle error merely consists of treating capital as a trans-historical element of all production. What marks *vulgar* political economy as such, for instance in the work of Say, is a movement towards apologetics and "strenuous efforts to talk out of existence the ideas which contain the contradictions."[109] In this sense, the GHS is the zenith of vulgar political economy. As Marx tells us:

> The last form is the academic form, which proceeds 'historically' and, with wise moderation, collects the 'best' from all sources, and in doing this contradictions do not matter; on the contrary, what matters is comprehensiveness. All systems are thus made insipid, together in a miscellany. The heat of apologetics is moderated here by erudition. . . Since such works only appear when political economy has reached the end of its scope as a science, they are at the same time the *graveyard of this science*. . . Professor Roscher is a master at this sort of thing and has modestly proclaimed himself to be the Thucydides of Political Economy.[110]

It should further be noted that Marx himself was well-acquainted with the intellectual predecessors of the GHS, having transfered in the Fall of 1836 to the University of Berlin to study jurisprudence. Here, Marx was a direct student of Savigny, as well as of the Hegelian scholar of Jurisprudence, Eduard Gans.[111] Importantly, in some of Marx's earliest surviving work, we find a strident rejection of the GHSJ, with criticisms that mirror those Marx would later level against Roscher. For instance, in discussing Gustav Hugo, who Marx sees as the "forefather" of the GHSJ, Marx complains that "Hugo's reasoning, like his principle, is positive, i.e., uncritical. He knows no distinctions. Everything existing serves him as an authority, every authority serves him as an argument."[112] For Marx, the GHSJ was but a thinly veiled appeal to natural law, wherein the political authority of the law-giver acted as a self-justification of law itself.

Beyond Marx's critique, we should remind the reader that Roscher explicitly maintains a theory

[107] Marx 1971, Vol. 3, p. 453-5.
[108] Ibid, p. 500. The Ricardian treatment of distribution wherein rent is merely 'surplus profit' is the example Marx has in mind here.
[109] Ibid, p. 501
[110] Ibid, p. 502.
[111] On this neglected aspect of Marx's development, see Kelly 1978, p. 350-367.
[112] Marx 1975, Vol. 2, p. 203.

of distribution rooted in marginal productivity, and argues for the role of an aggregate production function in determining the course of economic history. As Erich Streissler has emphasized, such a theory of distribution is not an innovation on Roscher's part, and its inclusion in the *Grundlagen* reflects the fact that such a theory was commonplace in German economics by the mid-1850s.[113] What is striking, for our purposes, is that Roscher's historical method consists of the trans-historical application of unchanging economic laws. As Striessler succinctly puts it, "[f]or Roscher the whole of history is a vast process of substitution of the classical factors of production."[114] Further, the practical substance and contradictions of Roscher's historical method were not lost on his contemporaries, and supposed allies in the GHS. Bruno Hildebrand, in an early intervention against Roscher, argued that he "assumes two elements in the history of the economic activity of individuals and peoples: that of natural law which always remains the same and develops from the private interests of individuals, and that which is changeable, which shifts with a people."[115] That is, the tension described above manifests throughout Roscher's work.

Then there is the uncomfortable question of how the historian of thought ought to position Roscher within the *Methodenstreit*. Though it is frequently dismissed as little more than a marketing ploy, Carl Menger dedicated his *Grundsätze der Volkswirtschaftslehre* to Roscher, and, as Striessler has emphasized, the style and ordering of his presentation is very much within the tradition established by Rau, and continued by Roscher.[116] Though Roscher viewed the mathematical formalism of W.S. Jevons and Léon Walras as, at best, a subdiscipline, he was in no way dismissive of Menger's subjective approach to the problem of value.[117] Menger, for his part, was well aware that Roscher's methodological pronouncements were at odds with the actual practice of his academic work. Consequently, Menger did not principally object to Roscher's economic theory; rather, he challenged Roscher's pretension to have derived economic theory from the study of history. Menger makes it clear that:

> [Roscher's] system of political economy, as every unprejudiced person must admit, is in truth not at all a philosophy of economic history in the sense he himself characterized, but mainly a compilation of theoretical and practical knowledge from "historical" treatments

[113] Alfred Marshall, for one, was conscious of the debt that his one treatment owed to German economics. Marshall noted that his treatment of distribution was "based in the first instance on Adam Smith, Walthus and Ricardo, and in the second on von Thiinen as regards substance and Cournot as regards the form of the thought." Quoted in Robertson 1970, p. 7. Further, Streissler notes that while Johann Heinrich von Thünen is commonly accorded priority in the development of the theory, F.B.W. Hermann, a contemporary of Rau in Munich, was also instrumental in extending 'Ricardian' theory to labor and capital. Streissler 2001, p. 311-31.

[114] Ibid, p. 325.

[115] Quoted in Priddat 1995, p. 29-30.

[116] Indeed, Roscher is the most quoted author in the *Grundsätze.* For his part, Roscher praised Menger's "thorough knowledge," and the 1875 edition of the *Grundlagen* sees Menger cited seven times; more than twice the number of citations accorded to Schmoller. Striessler 1990, p. 34.

[117] Roscher says of Jevons' work that "[t]he whole thing is more a curiosity than a science." Quoted in Priddat 1995, p. 21n.

> of political economy; usually, however, from "unhistorical" ones. It is a compilation, the historical element of which on the whole does not consist in the special character of the range of theoretical and practical knoweldge of economy it reveals, but in adventitious historical and statistical pronouncements and historical and historical-philosophical digressions about individual economic matters.[118]

Menger's fundamental position in the *Methodenstreit* was not a rejection of historical method properly concieved, but rather an insistence on the distinct tasks of historical and theoretical economics. For Menger, the object of theoretical economics was "to determine the empirical forms recurring in the alternation of economic phenomena, for example, the general nature of exchange, of price, of ground rent, of supply, of demand, and the typical relations between these phenomena." Subsidiary to theoretical economics, "[t]he historical sciences of economy... teach us the nature and development of individually definite economic phenomena, thus, e.g., the state or the development of the economy of a definite nation or of a definite group of nations, the state or the development of a definite economic institution, the development of prices, of ground rent in a definite economic district, etc."[119] That is, theoretical economics should yield general economic laws, while historical economics should furnish empirical examples to which these laws could be applied. In Menger's view, Roscher conflates these two distinct branches of inquiry in principle, though certainly not, as we have seen, in practice. Though we might disdain Menger's own methodological principles, we cannot but agree with his judgment of Roscher.[120]

Finally, we should note that Alfred Marshall evidenced a similar appreciation of Roscher's work. Much as Krishna Bharadwaj has argued that Marshall derived his peculiar interpretation of Ricardo from J.S. Mill's treatment, one is tempted to argue that Marshall's extension of this theory to the domain of economic history owed much to the 'Older' GHS. In the early 1870s, Marshall devoted a great deal of time to the study of history, approaching these historical works with a 'full fresh enthusiasm.' Importantly, Marshall's study of the German language enabled him to read the work of many of the principle figures of the 'Older' GHS, including Roscher and Rau.[121] While Marshall offered no extended commentary on Roscher, in both his published work, and his extant correspondence, we find telling clues as to his interpretation.[122] For instance, in a letter to Edgeworth from

[118]Menger 1985, p. 188.
[119]Ibid, p. 42.
[120]It is further worth recalling that while Schmoller and other representatives of the 'Younger" GHS did reject Menger's proposition that theoretical economics could independently yield general laws of economic life, and emphasized the importance of inductive historical study as a path towards theory, their theoretical positions were not particularly unique. H.R. Seager, a US-born student of Schmoller in the aftermath of the *Methodenstreit*, noted that "[i]n his treatment of value and price he showed his acquaintance with the work of the Austrians by freely borrowing their results, not, however, as a consequence of a long and difficult chain of deductive reasoning, but simply as obvious inferences from his own descriptions of market phenomena." Quoted in Tribe 1995, p. 79.
[121]Groenewgen 1995, p. 163-4.
[122]In the *Principles*, Marshall notes that while a few members of the school have misinterpreted Ricardo, "with few exceptions the leaders of the school have been free of this narrowness. It would be difficult to overrate the value of the work which they and their fellow-workers in other countries have done" (768).

1886, Marshall outlines his opinion on the applicability of economic theory to different historical eras and cultures. Here Marshall comments that:

> My information has been got gradually, a great deal of it from conversation; I have cross-examined people (normally conversant with India) who have started by saying that prices and wages are determined by custom and have got them to admit that the custom always changed in substance , if not in outward form, whenever there was any considerable Ricardo-economic reason why it should.[123]

Marshall continues the same letter by directing Edgeworth's attention to Roscher's work, presumably as work supportive of the same position.

Marshall was ever-cautious in the wake of the *Methodenstreit* to remain in the middle-ground between the camps of Schmoller and Menger, rejecting the atheoretical extremes of some of Schmoller's rhetoric, while simultaneously cautioning against the blind usage of trans-historical laws.[124] One illustration of this ambiguity is found in the appendix on methodology in the *Principles.* In this instance, Marshall contends that:

> [modern economists] are learning that the principle of [Ricardo's] analysis of rent is inapplicable to much that commonly goes by the name of rent to-day; as well as to a much larger part of those things which are commonly, but incorrectly, described as rent by historians of the middle ages. . . economists are also learning that it is applicable with proper care to a great variety of things in every stage of civilization which do not appear at first sight to be of the nature of rent at all.[125]

Certainly, this is not the place for an extended critique of Marshall's approach to economic history. What is of central importance, for our purposes, is that Marshall's interpretation of the 'Older' GHS seems to mirror our interpretation presented above. Marshall, in keeping with the prevailing approach of German economics, extends the concept of diminishing marginal productivity to labor and capital, and sees the optimization of technique through factor substitution as a "subterranean" force operative in all historical societies. As can be seen in the preceeding quotation, and elsewhere[126], Marshall was well aware that this extension of Ricardian rent theory had become rather commonplace in German economics.

[123] Marshall 1996, Vol I, p. 209.

[124] Glassburner 1955, p. 591. More recently, Hodgson has argued that Marshall's position was quite close to that of the German and British Historical Schools, and that he wished only to refute the more radical antitheoretical elements of the school. Hodgson 1995, p. 331-48.

[125] *Principles*, p. 778. Marshall's position on the applicability of neoclassical theory to economic history was reiterated in his debate with William Cunningham. The debate, initiated by Cunningham's critical review of the *Principles* in the *Economic Journal*, centered on Marshall's appropriation of Ricardian rent theory. Here Marshall notes that, "in my own small way I have on the one hand endeavoured to indicate how the general scope of the theory may be extended, I have striven on the other hand with no less care to show how inapplicable is the rigid letter of the theory even to the case of so-called competition rents in modern England, unless account is taken of a great variety of delicate and intricate side-issues and modifying causes." Marshall 1892, p. 513.

[126] For instance, von Thünen is explicitly cited as the first instance of a developed marginalist theory of distribution. See *Principles*, p. 522-3.

2.4 Richard Jones and the Historical Method

Our purpose above was first to suggest that Roscher and the 'Older' Historical School have been misinterpreted by historians of thought eager to emphasize the methodological continuity within the GHS. Several preliminary conclusions emerge: First, while Schmoller and other members of the 'Younger' Historical School did insist on the historical relativity of economic theory, their method was not a mere extension, or more faithful application of the method set out by Roscher. Instead, the work of Schmoller and company should be seen as a substantial revision of the method of the 'Older' GHS.[127] Secondly, if a German Historical School worthy of the attention of heterodox historians of thought does not emerge until the 1870s, the worry is that the undue attention paid to the 'Older' branch of the GHS obscures the valuable contributions of its contemporaries. By way of a modest remedy to this deficiency, we turn our attention to the work of Richard Jones.

Nearly seventy years ago, Henryk Grossman could fairly charge that Richard Jones had "not been properly appreciated except by Marx."[128] Unfortunately, with few exceptions, the same claim could be made today.[129] Some of this contemporary neglect could be attributable to the limited attention Jones garnered in his own day. The first volume of his *Essay on the Distribution of Wealth and on the Sources of Taxation*, published in 1831, was Jones' sole work to appear in print during his lifetime.[130] Further, the iconoclastic character of his contributions, set as they were against both Ricardian conceptions of rent and distribution, as well as the deductive approach of Nassau Senior, found Jones few theoretical allies.[131] Despite according T.R. Malthus considerable respect – and, in 1835, assuming the Chair of political economy at East India College formerly held by Mathus – Jones' favored approach to political economy differed radically from that of nearly all his contemporaries.[132] Jones insists that:

[127]This point was made forcefully by Thornstein Veblen in his review of Schmoller's *Grundriss der allgemeinen Volkswirtschaftsleh*, published in 1900. Veblen offers a useful summary of Schmoller's own evolution. Though Schmoller was, in his early work, 'iconoclastic' with his suggestion that a generation of historical economists should concentrate solely on historical research before rushing to build theoretical systems, he was not purely opposed to economic theory. These earlier historical labors then laid the groundwork for a theoretical study of the roles played by institutions in economic life. Veblen went so far as to suggest that "it appears that Professor Schmoller's work differs from that of the elder line of historical economics in respect of the scope and character of the preliminaries of economic theory no less than in the ulterior aim which he assigns the science. It is only by giving a very broad meaning to the term that this latest development of the science can be called an " historical" economics" (80). Given this perspective, it is strange that Veblen finds no citation in Heath Pearson's work, referenced above. Veblen 1901, p. 69-93.

[128]Grossman 1943, p. 506-22. It should be noted that Marshall was well aware of Jones' contributions and went so far as to claim that "his influence, though little heard of in the outer world, largely dominated the minds of those Englishmen who came to the serious study of economics after his works had been published by Dr. Whewell in 1859." Unfortunately, something of the novelty of Jones' system seems to have escaped Marshall, and his explicit references to Jones are quite limited. Marshall 1975, Vol. II, p. 24.

[129]See the brief survey of Jones' method in Miller, p. 198-207.

[130]A selection of Jones' extant papers, edited by his personal friend William Whewell, was published 1859, four years after his death.

[131]Still, Jones was far from an unknown. Roscher cites, and arguably plagiarizes, a number of Jones' contributions, and Marshall approvingly cites him as an authority in the *Principles*.

[132]Salim Rashid contends, on the basis of a survey of his correspondence, that Jones had ceased reading works of political economy produced by his contemporaries. See Rashid 1979.

> [P]olitical economy must found all maxims which pretend to be universal on a comprehensive and laborious appeal to experience; it must be remembered steadily, that the mitx [sic] causes which concur in producing the various phenomena with which the subject is conversant, can only be separated, examined, and thoroughly understood by repeated observation of events as they occur, or have occurred, in the history of nations.[133]

Much of Jones' animus is directed against Ricardo's conception of rent as a differential surplus, regulated by the level of output at the extensive margin of cultivation. Jones does not object to the application of this notion simply at a theoretical level; rent may, in certain historical eras, take the theoretical form of surplus profits. Instead, Jones sees Ricardo's theory as an inadequate general conception of the different *historical* forms taken by rent. On the basis of his historical survey, Jones comes to argue that diminishing productivity in agriculture bears no trans-historical correlation with rising rents, and thus rents pose no barriers to long-run accumulation. Before delving into the substance of Jones' analysis, we should note how plainly it contrasts with Roscher's historical method. For Roscher, rent is always seen as the surplus profit that arises from the application of given stock of capital to parcels of land which differ in their inherent fertility. Following this line of reasoning, the historical rise in rents is a joint consequence of the growth of population, and the rising capital intensity of agriculture.[134] For Jones, by contrast, this is but the last historical form taken by rent.

Jones begins his analysis from the premise that wealth is only realized through human labor. As we are told, "all wealth, whatever be its source, is made available for the purposes of man by human labor... Hence the hands from which all wealth is first *distributed* must be those of the laborer." Rents, profits, and wages are then distributive categories that arise because "the laborer is rarely in a condition to retain the whole produce of his exertions."[135] Amongst a population engaged in subsistence agriculture, rents only arise when land is "appropriated" by a certain portion of the population, forcing those who work the land to pay "some tribute."[136] At this earlier stage, Jones' work seems to advance little beyond the Physiocrats, given his claim that land *can* yield rent because of the "power of the earth to yield, even to the rudest labors of mankind, more than is necessary for the subsistence of the cultivator."[137] It is only when Jones turns his attention to the nature of this appropriation that the novelty of his treatment is revealed. Jones suggests that Malthusian and Ricardian conceptions of rent rest on the Lockean description of the *origins* of property: that is, land is rightfully appropriated though the labor of improvement, and yields a rent equivalent to its

[133] Jones 1831, p. xix.
[134] Roscher 1854, Book II, p. 26-9.
[135] Jones 1831, p. 2.
[136] Ibid, p. 4.
[137] Ibid, p. 4.

surplus productivity relative to unimproved lands. While he admits that such a description of the origins of rent is "an abstract possibility," Jones argues that "the past history and the present state of the world yield abundant testimony, that it neither is, nor ever has been, a practical truth, and that the assumption of it as the basis of systems of political philosophy is a mere fallacy."[138]

What Jones finds, as a student of history, is that rents in practice fall into one of two categories: primary rents (alternately, peasant rents), and secondary rents (farmer's rents).[139] Primary rents, the older of the two historical categories, arise when the majority of the population is engaged in subsistence agriculture. Here, the laborer "extracts his own wages from the soil," while the proprietors must devise various historical means of extracting surplus production. Jones suggests that while owners of the soil are generally averse to "superintending labor," rents first assume the form of labor services. Though landowners might prefer to be paid in kind, "their being able to do this supposes in the tenants themselves, some skill, and *habits of voluntary and regular labor*."[140] As cultivators should be assumed to have no innate motive to produce beyond their subsistence needs, the most basic form of primary rent is necessarily labor services.[141] Jones then goes on to trace the evolution of rents from this most basic form, to metayer (produce) rents, and finally to ryot rents or cottier rents (both of which are money rents). The crucial point here is that such primary rents "determin[e] by their forms and their results the destinies of nations."[142] Put differently, the mode of surplus extraction informs (or partially determines) the broader social structure of nations.

Jones insists that such rents still predominate over much of the globe, having only disappeared in England and Scotland, along with limited regions of the Netherlands, France, Italy, Spain, and Germany.[143] Weighed down by the joint burdens of rents and taxes, the peasantry finds little motivation to engage in agricultural improvements that might augment the social surplus. That is:

> the long endurance and stationary state of peasant tenures over a great part of the world, are mainly attributable to the state of poverty in which the cultivators have so long found themselves: a state of poverty... which can only be relieved by such sacrifices on the part of other classes, as they are rarely able and willing to make.[144]

How then is a transition from primary rents to secondary rents effected? In Jones' schema, capitalist agriculture, wherein wages are advanced to a laboring class that has no claim to the products of

[138] Ibid, p. 5.
[139] Ibid, p. 10-12.
[140] Ibid, p. 17.
[141] On this point, as in other instances, Jones' work recalls that of James Steuart. We might recall Steuart's comment that "we may lay it down as a principle, that a farmer will not labour to produce a superfluity of grain relative to his own consumption" (Steuart 1966, p. 51). This is the substance of Marx's comment on Jones that, "[e]ven this first work on rent is distinguished by what has been lacking in all English economists since James Steuart, namely, a sense of the historical differences in modes of production." Marx 1971, Vol. 3, p. 399.
[142] Jones 1831, p. 185.
[143] Ibid, p. 165.
[144] Ibid, p. 178.

their labor, only arises after capitalist wage relations have been established amongst the classes of "artizans and handicraftsmen."[145] Though, in this context, Jones fails to devote attention to how a "race of capitalists" comes to organize production in society, he shows a keen awareness of the effects of this transformation, whereas in the stage of peasant rents, the accumulated products of labor could be practically applied only in agriculture. By contrast, "when the employers of laborers hold in their hands an accumulated fund equal to their support, this dependence on the soil is broken."[146] Owners of capital are then free to employ it in the most productive sector, be it agriculture or industry. Thus, it is only at this historical stage that the Classical notion of a uniform rate of profit across sectors is applicable. Moreover, it is only at this stage that rents cease to be a *direct* extraction from labor, and are transformed into a claim to the surplus profits yielded by a given parcel of land. This understanding of rent as a claim to surplus profit implies that rents will increase with the growth of capital employed in agriculture, rather than as a consequence of extending the margin of cultivation.[147] Finally, in this stage, wages cease to consist of the residual agricultural produce left to labor after rent has been extracted. Rather, wages come to be advanced from previous accumulations of capital. This transformation, one which Jones recognizes to have taken place only in a relatively small portion of the globe, has two basic consquences: First, aggregate production is greatly increased as direct laborers may work "uninterruptedly," being no longer obligated to personally find a market for their produce. Moreoever, it is in the interest of the capitalist, in his managerial role, to "divide or combine the tasks of industry in the most advantageous manner.[148] Second, "when capitalists advance the wages of the whole population, an entire change takes place in the relations of the laborers and their employers, and their position in the body-politic."[149] For Jones, the widespread employment of labor by capitalists introduces the possibility of a strengthened bargaining position for labor. So long as the "mass of capital is increasing faster than the population," the force of competition tends to carry "wages to the highest point which the capitalist can pay, consistently with his making a reasonable profit on his capital."[150] Jones' optimism notwithstanding, we should emphasize that for Jones, distribution remains a social determination. That is, the "reasonable profit" on capital does not bear a uniform correspondence to the productivity of that capital. In this sense, Jones understands that distribution remains a conflictual determination in all stages of human history (with the bargaining power of labor being

[145] Ibid, p. 187.
[146] Ibid, p. 188.
[147] This, for Marx, is "the first point on which Jones is in advance of Ricardo." Marx 1971, p. 405.
[148] Jones 1858, p. 455
[149] Ibid, p. 456.
[150] Ibid, p. 460.

strengthed under capitalism), and despite his stinging criticisms of Ricardo, Jones retains something closer to the Classical conception of distribution.

Much as in his treatment of the historical evolution of forms of rent, Jones rejects any simple mechanistic relationship between capital and economic growth. While it would be simple, Jones suggests, to treat economic development as the consequence of greater accumulations of capital, such an approach avoids the foundational question. Namely, we find that "powers and facilities to accumulate varying quantities of capital. . . often depend very much on institutions springing up in the infancy of societies, and affecting, during the whole of their observable career, the distribution of their wealth, and all the relations and means of the productive classes."[151] For Jones then, profits serve as the principle source of accumulation only in the most recent stages of human history, and even then, only in small pockets where the more ancient forms of rents have ceased to exist. Accumulation certainly took place in earlier stages of economic development, on the basis of rents or the 'wages' workers advanced to themselves. Thus Jones understands that it is the specific historical regime of distribution that determines the primary source of accumulation.[152]

Finally, we should note what was, in Marx's view, the true innovation in Jones' analysis, namely "that he emphasizes that the essential feature of capital is its socially determined form, and that he reduces the whole difference between the capitalist and other modes of production to this distinct form."[153] Here we find Marx's greatest insight into Jones' work; namely, that Jones does not treat capital as a trans-historical factor of production, instead recognizing that capital comes into being by virtue of "institutions springing up in the infancy of societies, and affecting. . . the distribution of their wealth, and all the relations and means of the productive classes."[154] Again, Jones is clear in his outline of the causes of capital accumulation. He first quickly dismisses the notion that a greater inclination to frugality is at the root of accelerated capital accumulation. We are told that "bodies of men are, in truth, much more the creatures of the circumstances in which they are placed."[155] Jones first recognizes that it is a polarized, and concentrated, distribution of income that allows for a higher rate of capital accumulation.[156] Though capital is accorded sole credit for increasing the productivity of labor, capital itself is understood as "the stored-up results of past labor."[157] What, for Jones, distinguishes the economic organization of the majority of the world's people from that

[151] Ibid, p. 361.
[152] Incidentally, this was a point on which both Marx and Marshall praised Jones. See Marx 1971, Vol. 3, p. 420-1 and Marshall 1927, p. 229n, and Marshall 1996, Vol. I, p. 225.
[153] Marx 1971, Vol. 3, p. 424.
[154] Jones 1858, p. 361.
[155] Ibid, p. 375.
[156] Ibid, p. 376-7.
[157] Ibid, p. 391.

of modern capitalist England is that:

> this stored-up result of past labor. . . does not perform in every community all the tasks it is capable of performing. . . [T]he one special function, the performance of which is essential to the serious advance of the power of capital in all its other functions, is exactly that which, in the case of the greater portion of the laborers of mankind, capital has never yet fulfilled at all. I allude to the advance of the wages of labor.[158]

In Jones then, we see an independently developed application of the historical method to economics, one which succeeded where the GHS would fail. In teasing out the specificity of historical forms of economic organization, Jones introduces categorical distinctions which focus on the means by which economic surplus is extracted. In this sense, Jones retains much of what is valuable in the theoretical approach of the Classicals, while enriching that analysis through the perspicacity of his historical method.

2.5 A School Worth Saving?

What is most surprising, on the basis of the preceeding discussion, is not simply the extent of our distorted understanding of the German Historical School. Rather, what is alarming is that heterodox students of economic thought have, in their search for historical allies, perpetuated so many of these distortions. Upon more careful inspection, the virtues of the older GHS, and Wilhelm Roscher in particular, appear as little more than a handful of disregarded maxims. More than simply an unfulfilled research program, we find in the GHS conceptions that prefigure the neoclassical theories of distribution and choice of technique. Moreover, it is Roscher's explicit aim to demonstrate that these 'laws' can be applied *throughout* history. While the younger GHS distanced themselves from some of Roscher's theoretical extravagances, their failure to articulate a coherent theoretical alternative to the principles of the 'older' School suggests a measure of theoretical kinship between two generations. As the literature often informs us, the 'younger' School did not abhor theory altogether, but instead argued that theory should be generated inductively through the study of history. It would then seem that Schmoller and his collegues objected not so much to the substance of marginalist theory, as to the method underlying its creation.

Historical revisionism aside, the importance of these suggested correctives to the narrative surrounding the GHS is only magnified by the fact that heterodox historians' preoccupation with the GHS has obscured the valuable contributions of historical economists such as Jones. Indeed, few authors would seem to better champion Hodgson's insistence on the historical specificity of all

[158] Ibid, p. 392.

economic theory. Beyond this, a closer study of Jones reveals him to be a true heir to the best tendencies of Classical poltical economy, a tradition which the GHS helped to sweep away.

3 EFFECTIVE DEMAND IN THE LONG-RUN: ROBINSON OR KALDOR?

The charge that the present crisis plainly exposed the limitations and vacuity of mainstream models of growth and distribution is so common a refrain in the literature – both popular and academic – that it scarcely bears repeating. For many critics, lackluster rates of growth realized over the past decade appeared as clear evidence that a restoration of corporate profitability could not guarantee the robust rates of growth seen during postwar capitalism's 'Golden Age.' Few authors may have been so naive as to suppose that the crisis would prompt a wholesale restructuring of mainstream economic theory, but even the most cynical observer might be disheartened by that theory's continued implacability. While the political and ideological role played by mainstream theory in justifying patterns of distribution in advanced capitalist countries no doubt explains much of its resiliancy, the degree to which a number of post-Keynesian authors have echoed many of the policy conclusions of the mainstream has gone largely unappreciated.

In the Introduction to her *Accumulation of Capital,* Joan Robinson framed her basic problem as "the generalization of the *General Theory,* that is, an extension of Keynes' short-period analysis to long-run development."[159] More than fifty years on, there remains no clear consensus as to the proper extension of the principle of effective demand to the question of long-run growth, though distinct schools of thought, in the sense of Schumpeter, have emerged.[160] With the usual disclaimer about the perils of over-generalization in mind, such extensions typically draw their inspiration from either Nicholas Kaldor or Michael Kalecki and Joan Robinson. A fundamental distinction between these families of models lies in their treatment of investment. In formalized models working in the spirit of the 'mature' Kaldor[161], investment is derived demand. Adopting the concept of the supermultiplier first introduced by Hicks, the motive force behind long-run growth is the growth of autonomous demand, to which the growth rates of both investment and consumption are 'attuned.' For Kaldor, if we take up the perspective of any given region or country, autonomous demand must

[159]Robinson 1956, p. vi.

[160]The spectrum of post-Keynesian models outlined in Carvalho (1985) seemingly remains applicable. Further, one would do well to recall Carvalho's comment that Joan Robinson's ever-changing views render her a 'universe' unto herself.

[161]Vernengo and Rochon 2001.

be seen as "emanating from outside the region."[162] Simply put, growth in the long-run is demand-led, and Keynes' paradox of thrift remains in effect.

In contrast, with Kaleckian-Robinsonian models, investment takes a life of its own in the form of an independent investment function dependent on the rate of profit. The result of this modeling choice is that changes in distribution can have ambiguous effects on the rate of accumulation; effects which depend on the specification of the investment function, and the elasticity of investment with respect to the function's independent variables. Though variations on such models are legion, the basic model first presented by Steven Marglin and Amit Bhaduri in 1990 has enjoyed widespread adoption in the post-Keynesian literature.[163] The curious developmental turn taken by this family of models is that the profit rate is decomposed into the profit share, the rate of capacity utilization, and the productivity of capital, with each of these variables having an independent effect on the level of planned investment, and thus on accumulation. The relative values of the model's parameters then allow one to classify a 'growth regime' as either wage- or profit-led. In the wage-led case, a rising wage-share bolsters demand and increases the rate of capacity utilization which, in turn, induces firms to invest. In the profit-led case, however, a rise in the profit share serves as the stimulus to investment, and ultimately growth. This model has provided fertile ground for an empircal literature where econometric estimates of the model's parameters often suggest that while growth is wage-led in developing countries, industrialized nations have exhibited profit-led growth. The politically uncomfortable conclusion of such models is that a redistribution from wages to profits is the driver of growth in advanced capitalist countries. Seen in this light, economic growth realized in the US over the past three decades has been fueled rather than retarded by the stagnation of real wages. Moreover, the incongruity of this theoretical position is not lost on the model's active practitioners. Lance Taylor, whose empirical applications of the Bhaduri-Margin model have been particularly influential, noted that the concept of profit-led growth "is non-left Keynesian."[164]

The motivation of the paper is two-fold: The first claim is that much is gained by examining the intellectual history of this bifrucation. Specifically, it is argued that the theories of investment proffered by the two post-Keynesian 'schools' are fundamentally incommensurable, and that models working in the tradition of the 'mature' Kaldor are more ammenable to recent historical experience. Having outlined the central points of contention, the paper turns to present two simple empirical models which are suggestive of the primacy of the accelerator in the determination of investment.

[162] Kaldor 1989, p. 340.
[163] Bhaduri and Marglin 1990.
[164] Taylor 2004, p. 112.

3.1 Theories of Effective Demand in the Long Period

As noted above, there was perhaps no figure more concerned with carrying the mantle of Keynes into the long-run than Joan Robinson. This preoccupation figures early and often in Robinson's work, having been first clearly articulated in her essay "The Long-Period Theory of Employment."[165] Here Robinson notes that the purpose of the essay is:

> to outline a method by which Mr. Keynes' system of analysis may be extended into regions of the long period and by which it may become possible to examine the long period influences which are at work *at any moment of time*.[166]

While the model presented in this essay is, as Robinson admits, in its 'early stages' and retains a marginalist approach to distribution, certain features which would characterize Robinsonian growth models are already observable. Namely, Robinson's focus is on how changes in distribution will impact the long-period level of output. To this end, Robinson dissects the long-period effects of an alteration in the rate of interest. A fall in the rate of interest would lead firms to substitute capital for labor, lowering the marginal productivity of capital employed and raising that of labor, ultimately leading to a rise in the real wage. It would then seem reasonable to suppose, given a higher marginal propensity to consume out of income on the part of workers relative to capitalists, that such a redistribution would raise the long-run level of output. Quickly though, Robinson cautions that this result is 'by no means necessary.' The net effect such a change in distribution has on output depends on firms' elasticity of substitution between capital and labor. That is, the wage share and the level of output will increase only in the case that this elasticity of substitution is less than one, a case which Robison argues is highly unlikely. Thus, "it appears by no means fantastic to suppose that a fall in the rate of interest may reduce the equilibrium level of employment."[167] Again, while Robinson came to abandon much of this early approach, a focus on the ambiguous effects of distributional changes on long-run growth would remain.

As Pierangelo Garegnani has noted, putting aside the prominent role given to marginalist theory in this early work, there are aspects of the model that appear very Classical.[168] Specifically, the concept of long-period equilibrium employed by Robinson in this article is not the quasi-mythical 'state of tranquility' to which Robinson refers in *The Accumulation of Capital* (*AoC*). Rather, the concept is adopted as a means of isolating the pull of long-run forces from short-run disturbances.

[165]The essay was first published in the *Zeitschrift für Nationalökonomie* in 1936, only a month after the *General Theory* first appeared, and reappeared a year later in *Essays in the Theory of Employment*. Keynes, it should be noted, took an active role in correcting and commenting on the proofs for the *Essays*. While he offered substantial objections to some of the essays, and expressed a general discomfort with Robinson's formalism and abstraction from reality, no major objections were raised against the essay with which we are concerned. See Aslanbeigui and Oakes 2009, p. 213-20.
[166]Robinson 1947, p. 75. Emphasis added.
[167]Ibid, p. 86.
[168]Garegnani 2002, p. 64- 72. Here, 'Classical' is used in Garegnani's, rather than Keynes', sense of the term.

As Robinson has it, "[i]n any actual situation long-period tendencies show themselves in the statistics concurrently with short-period effects, and it would be impossible to make a comparison of output, employment and wages between one year and the next if long-period tendencies were not brought into account."[169] This notion that the system might oscillate around long-run positions – or 'centers of gravity' – is firmly rejected by Robinson in her later work, making its presence in this early essay conspicuous, and prompting the question of why this method was abandoned. No simplistic answer presents itself, but it would seem that Robinson's reading of Sraffa's *Introduction* to Ricardo's collected works, her ongoing dialogue with Kalecki, and her reading of Marx's *Capital* jointly motivated a shift in approach.[170]

It is in Robinson's mature work that the distinctive features of her long-run growth model first emerge. The decisive modeling choice is, as we have said, the presence of an independent investment function governed by the rate of profit (and the assumption of a fixed rate of interest), rather than by the marginal efficiency of capital and the interest rate as in Keynes' short-run function. It would seem that Robinson long remained wary of such a formalized model of the investment decision. While in her *AoC* the short-run barriers to given investment plans set by finance, money, and the balance of payments are spelled out, Robinson's hesitancy with regard to an investment function is pronounced.[171] She notes:

> as to what governs the level at which [investment] gets itself established we know very little. We know that it varies widely from period to period and from country to country, but any attempt to identify causes of variation in such influences. . . is in danger of confusing symptoms with causes.[172]

Thus while Robinson clearly comprehends that the extension of Keynes to the long-run requires a theory of what governs long-period investment, she shies away from formalizing such a theory. The difficulties involved in such an extension are again spelled out in her 1962 work, *Economic Philosophy.* Here she notes that in models of the trade cycle, such as those presented by Kalecki, the cycle is governed by short-run variations in investment responding to the rate of profit. A theory of trend growth, however, requires us to specify the determinants of 'autonomous' investment. For Robinson, an extension of the Kaleckian model to the long-period merely demonstrates that investment has inertia; the level of investment in the present is conditioned by its level in the past. The question

[169] Robinson 1947, p. 100.
[170] On this point, see Marcuzzo 2005.
[171] Robinson 1956, p. 50-5. With regard to finance, Robinson proposes that given investment plans produce the necessary conditions (savings) for investment to continue at the same level. What finance cannot easily accommodate is a rapid rise in the rate of investment. Beyond this, the investment of firms is constrained in the short-run by the existing level of capacity in the 'capital-goods' sector. While this investment goods sector tends to constrain the rate of investment to that which has obtained in the past, in the long-run, capacity can adjust to any desired rate of investment. The prime limit to investment for Robinson is the 'inflation barrier': the notion that there is a desired level of investment and accumulation that corresponds to a real wage rate below that which labor will tolerate.
[172] Ibid, p. 55.

of why a given trend level of investment is established remains open. Further, Robinson finds unsatisfactory those explainations, be they Marxian or Weberian, that rely upon capitalists as a class having an innate, or inculcated, motive to accumulate. Rejecting these, the difficulty that remains is that "[t]o understand the motives for investment, we have to understand human nature and the manner in which it reacts to the various kinds of social and economic systems in which it has to operate. *We have not got far enough yet to put it into algebra*."[173]

Apparently, Robinson had little trouble in getting far enough to dare express such a long-run investment function. Though she felt it necessary to repeat many of the same caveats about the specification of an investment function, such a function appears first in her *Essays in the Theory of Economic Growth.* Though Robinson's language remains tentative, the model is clearly stated:

> It seems reasonably plausible, however, to say that, given the general characteristics of an economy, to sustain a higher rate of accumulation requires a higher level of profits. . . For the purposes of our model, therefore, the 'animal spirits' of the firms can be expressed in terms of a function relating the desired rate of growth of the stock of productive capital to the expected level of profits.[174]

This specification is, of course, the necessary precursor to Robinson's famed 'banana diagram,' wherein we find the 'double-sided' (or tautological) relationship between the rate of profit and the rate of accumulation. While we can assume the reader's familiarity with the model itself, what is of particular import for our purposes is Robinson's interpretation of it. In her view, what the animal spirits model articulates is that "[t]he actual *trend* of growth is generated from within by the propensity to accumulate inherent in the system. It is steady or fluctuating according as it operates in tranquil conditions which generate inertia, or in a chancy world where uncertainty makes expectations volatile."[175] Thus, the expected rate of profit takes center stage as the governor of long-run trend growth, a variable which Robinson interprets as a proxy for 'animal spirits.'[176,177] For many post-Keynesians, Robinson's formulation would remain the cannonical standard for several decades.[178]

Kalecki, in his 1968 paper 'Trend and Business Cycles Reconsidered,' mirrored something of this basic formulation, but with the added device of a 'normal' or 'standard rate of profit' which serves as a gauge of the success of present investment. The intutition underlying Kalecki's theory

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[173] Ibid, p. 107. Emphasis added.
[174] Robinson 1962, p. 37-8.
[175] Ibid, p. 87. Emphasis added.
[176] Robinson is careful to note that the current prevailing rate of profit on investment can only be used to gauge the expected rate of profit in cases where the rate of profit has remained stable for some time (i.e., conditions of 'tranquility'). See Foley and Michl 1999, p. 178.
[177] The difficulty with such a theory of long-run growth was articulated by Garegnani in his debate with Robinson. Namely, that "the procedure by which unobservable, 'expected' quantities are used as determinants of the system runs the risk of depriving the theory of any definitive results." Garegnani 1979, p. 183.
[178] See for instance Marglin 1984.

of investment in this paper is rather simple. He suggests that "entrepreneurs scrutinize how new investment 'is doing"' by means of comparing the actual realized profit on new investment with the standard rate of profit that had been obtained in the past.[179] Realized rates of profit above (below) the standard rate tend to induce higher (lower) levels of new investment relative to that which would obtain given the standard rate of profit. In tracing the history of thought surrounding post-Keynesian investment functions, we can note two points of distinction here. First, as opposed to Robinson's investment function which depends upon *expected* profits, Kalecki's investment function depends upon the rate of profit *realized* in the present. Secondly, as one attentive reader has noted, Kalecki's proposed standard rate of profit denies an independent role in the investment function to the degree of capacity utilization. Clearly, for entrepreneurs to calculate the standard rate of profit on existing investment, the degree of capacity utilization must be known, and if this standard rate of profit is to serve as a gauge of new investment, this same degree of capacity utilization must be assumed in both cases. Thus, the notion that firms independently respond to changes in the the degree of capacity utilization seems incompatible with Kalecki's proposed investment function.[180]

The place given to the degree of capacity utilization in the archetypal post-Keynesian investment function is frequently attributed to Josef Steindl, though many of the intricacies of his stagnationist model are abandonded.[181] In light of the foundational place accorded to Steindl's work on long-run growth, we might briefly consider Steindl's formalization of the investment function. The most developed investment function posited by Steindl in his 1952 work begins by assuming that the rate of profit is constant. While recognizing that this assumption is 'not realistic,' Steindl argues that it is preferable to the assumption of constant capacity utilization.[182] On this basis, investment is seen as a positive function of the difference between the actual and desired degree of capacity utilization, internal accumulation on the part of the firm, and a term which Steindl calls the 'reciprocal gearing ratio' intended to capture how the firm allocates its internal accumulation.[183] The over-arching claim is that growth, fueled by investment, is an 'endogenous' or 'inherent' feature of capitalism. For Steindl, "[t]he concrete hypothesis that explains growth is this: the mere fact that business concerns accumulate savings is sufficient to induce them (after a certain time) to invest. The internal accumulation, *by itself*, generates investment."[184] Few modern authors woud likely question

[179]Kalecki 1968, p. 269

[180]White 1999, p. 341-353. As White notes, since Kalecki's typical business cycle model assumed that the degree of capacity utilization varied procyclically, calculation of the standard rate of profit would require one to determine average capacity utilization over one or more cycles.

[181]For a representative example, see Taylor 2004, p. 126. For a critique of the simplifications involved in modern Steindlian models, see Flaschel and Skott 2006.

[182]Steindl 1952, p. 211-2.

[183]Ibid, p. 213-5.

[184]Ibid, p. 193. Emphasis added

the inclusion of capacity utilization in post-Keynesian investment functions, but Steindl's emphasis on the role of internal accumulation is almost universally cast aside. Moreover, if we take Steindl at his word, it would seem difficult to even accurately classify his model of growth as demand-led.

The modern synthesis of the Kaleckian investment function with Steindl's emphasis on the role of capacity utilization found expression in the work of Bob Rowthorn.[185] For Rowthorn, the basic premise of Kaleckian models is that growth is wage-led. In an economy operating below full-capacity, it is increases in the real wage rate (achived via nominal wage increases or price reductions) that generate the demand necessary to call forth higher levels of output. This in turn raises the level of capacity utilization, and thus the rate of profit on the existing capital stock, inducing firms to invest. In formalizing his model, Rowthorn discards Kalecki's distinction between the standard and realized rate of profit, and makes investment a function of the current rate of profit, and the rate of capacity utilization. The relation is summarized in Equation 1 below, where I is the level of investment, K is the existing capital stock, a, b, and c, are positive constants, r is the rate of profit, and u is the level of capacity utilization.

$$g^i = \frac{I}{K} = a + br + cu \tag{1}$$

The inclusion of the level of capacity utilization in the investment function is justified on Steindlian grounds. The stated justification for including the current rate of profit in the investment function is three-fold: current profits serve as a barometer of future profits, they serve as an immediate source of internal financing for the firm, and they can improve the prospects for external financing. The crucial point for our purposes is that the structure of Rowthorn's investment function is such that only a wage-led growth regime is possible. Interestingly, in light of subsequent developments, Rowthorn chides those who "[f]or some obscure reason… focus their attention on the share of profits in output rather than the rate of profit," given that the profit rate and share do not necessarily move in the same direction in an economy operating below full capacity.

Alongside Rowthorn's contributions, the work of Andrew Glyn also suggested that the stagnation of the 1970s reflected the downward movement of the rate of profit. For Glyn, what percipitated this fall in the rate of profit was not the rising organic composition of capital, as more 'traditional' Marxists held, but rather the rise in the aggregate wage share, itself facilitated by a postwar capital-labor accord.

Following Rowthorn, the mid-1980s saw the introduction of a number of so-called 'stagnationist'

[185] Rowthorn 1981. It is often argued that Del Monte (1975) anticipated many of Rowthorn and Dutt's results.

post-Keynesian models.[186] These models essentially retained the basic investment function proposed by Rowthorn, and extended it to consider the effects of fiscal and monetary policy, as well as foreign trade.[187] Dutt, in justifying the investment function given in Equation 1, interprets the constant a as a reflection of animal spirits, and assumes 'for simplicity' that the current rate of profit is equivalent to the expected rate of profit. Taylor's (1985) investment function harkens back to Kalacki's (1968) formalization in that investment is taken as a positive function of the difference between the current rate of profit and the real rate of interest.[188] These models were alike at the theoretical level in that they assumed that a redistribution towards wages would have a positive impact on the rate of growth.

In the wake of these models, skepticism about the applicability of wage-led growth regimes to industrialized capitalist countries mounted. Robert Blecker (1989) noted that in an open-economy framework, wage-led growth would prove a sucessful strategy only if the economy was 'relatively closed' to foreign trade.[189] Wage-led growth in Blecker's model required that the volume of imports in proportion to national income should be low, and the the price and income elasticities of import demand should also be low. The more influential, and arguably more forceful, critique of stagnationist models came from Steven Marglin and Amit Bhaduri.[190] In their seminal paper, Marglin and Bhaduri present both a closed- and open-economy model, though their focus is on the former. These authors argue that previous investment function specifications are unsatisfactory in that they fail to consider the *independent* effects of capacity utilization and the profit share on the rate of investment.[191] The starting point for this critique is the familiar decomposition of the profit rate reflected in Equation 2 below, where R is firm's profit, K is the book value of capital, and Y^* is the full capacity level of output:

$$r = \frac{R}{K} = \left[\frac{R}{Y}\right]\left[\frac{Y}{Y^*}\right]\left[\frac{Y^*}{K}\right] = uhq \tag{2}$$

From this decomposition, it follows that in a Robinson-type investment function where only the rate of profit enters as an independent variable, distinct simultaneous movements of the profit-share and level of capacity utilization may be indistiguishable. Further, the authors argue that the mere inclusion of capacity utilization as an independent variable in the investment function

[186] Taylor (1985) defines a model as stagnationist if "both the growth rate and level of capacity utilization can be different conditions of income distribution and/or macroeconomic policy." p. 383.
[187] See Dutt 1984, Taylor 1985, and Amadeo 1986.
[188] The difference, of course, is that while Kalecki's standard rate of profit was essentially a constant determined by long-standing institutional factors, the real interest rate is subject to the influence of monetary policy.
[189] Blecker 1989, p. 395-412.
[190] Bhaduri and Marglin 1990.
[191] For an excellent survey of the transition to 'exhilarationist' models in the Kaleckian literature, see Blecker 2002.

à la Rowthorn and Dutt does not alleviate the problem. As capacity utilization then enters the investment function twice, it "imposes unwarranted restrictions on the relative response of investment to the two constituants of the profit rate."[192] The authors therefore propose an investment function described by Equation 3, where k and e are positive constants, and h is the profit share:

$$g^i = e(u, h),\ h = \frac{R}{Y} \tag{3}$$

On the basis of this investment function, Marglin and Bhaduri define two possible growth regimes, stagnationist and exhilarationist, the theoretical existence of which depends on the magnitude of savings and investment elasticities.[193] At issue here is the 'prime-mover' in the investment decision. If the principle barrier to investment is the existence of sufficient effective demand, changes in capacity utilization will, for a given rate of profit, dominate the effects of the fall in the profit share. By contrast, if "capitalists are confident of their ability to sell additional output" then the expected profitability of investment (profit share) is the dominant variable."[194,195] Furthermore, for Marglin and Bhaduri, there is no compelling theoretical reason to presume the existence of either growth regime, rendering the relative responsiveness of the investment function an empirical matter.

Though bearing these theoretical cautions in mind, Marglin and Bhaduri did not hesitate to apply their model to post-War US experience, and to offer a narrative account of the transition from wage-led to profit-led growth in the US. To paraphrase, they argued that in the aftermath of the Second World War, firms in most advanced capitalist countries were able to realize high profit margins and,

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[192] *Ibid*, p. 380.

[193] Assuming a typical Kaleckian savings function where workers do not save, and s_r is the marginal propensity to consume out of profits, we have:
$g^s = s_r r = s_r uhq$
$g^i = g^s$
$e(u, h) = s_r uhq$
Solving for u and partially differentiating with respect to h yields:
$\frac{du}{dh} = \frac{-(s_r uq - e_h)}{(s_r hq - e_u)}$
By the chain rule then:
$\frac{dg}{dh} = \frac{-e_u(s_r uq - e_h)}{(s_r hq - e_u)}$
Marglin and Bhaduri then assume that savings is more responsive than investment to changes in capacity utilization. This implies:
$s_r hq - e_u > 0$
Thus, the sign of the partial will depend on the numerator:
Stagnationist Regime (and wage-led growth): $s_r uq > e_h$
Exhilarationist Regime (profit-led growth): $s_r uq < e_h$

[194] Marglin and Bhaduri 1990, p. 168

[195] Lance Taylor amended the model to demonstrate that an exhilarationist regime can also obtain if we relax the assumption that workers do not save out of wages. The savings function that follows is given below, where s_h is the marginal propensity to save out of profits, and s_w is the marginal propensity to save out of wage income:
$g^s = [s_h h + s_w(1 - h)]u$
Utilizing a linerized form of the Marglin-Bhaduri investment function and the Cambridge equality we have:
$u = \frac{e_h h}{s_h h + s_w(1-h) - e_u}$, $\delta = s_h h + s_w(1 - h) - e_u > 0$
$\frac{du}{dh} = \frac{e_h - (s_h - s_w)u}{\delta}$, $\frac{dg}{dh} = \frac{e_u(e_h - (s_h - s_w)u)}{\delta}$
Thus, a relatively high savings propensity on the part of workers can also produce a profit-led growth regime. See Taylor 1990.

necessarily, high profit shares. Fearing a return of depression-like conditions, firms' investment was relatively insensitive to the profit share, and accelerator effects dominated. Given such conditions, "the strategy of wage-led growth may have been the best – indeed, the only – game in town."[196] As firms grew more confident through the 1950s and 60s that prosperity would not be transient, the investment function became increasingly sensistive to changes in the profit share, which for the time-being remained high. Carrying forward this altered investment function, the marked slowdown in US growth during the 1970s can be attributed to the fall in the profit share, itself produced by a host of factors including the decline in the rate of productivity growth, sustained wage pressures, and the oil price shocks. Writing at the close of the 1980s, however, the authors were hesitant to argue that the US had made a permanent transition to a profit-led growth regime. If businesses had again lost confidence in sustained economic growth, as Marglin and Bhaduri argue was the case, the growth regime of the US might have again reverted to the wage-led type.[197] Thus, while Marglin and Bhaduri defined the categories around which much future debate in post-Keynesian growth theory would center, they should not be seen as the originators of the view that the US economy had made a definitive transition to a profit-led growth regime.

3.2 Empirical Validation for Accumulation Regimes?

While the question of the ideal investment function was by no means resolved in the literature, a fragile consensus emerged in the 'neo-Robinsonian' literature around Rowthorn's formulation of the investment function.[198] In what follows, we cannot pretend to offer a survey of the diverse applications of structuralist models with Rowthorn-type investment functions. The sketch below is meant to trace the evolution of the widespread view among heterodox economists that the US economy can be characterized as profit-led.[199]

Much of the early empirical work which applied structuralist models to developing countries tended to support the stagnationist thesis of wage-led growth.[200] Following Marglin and Bhaduri's suggestion that one of two accumulation regimes might be seen to obtain theoretically, this literature

[196]Marglin and Bhaduri, p. 175.

[197]Ibid, p. 180-3.

[198]No obvious term succeeds in capturing the diversity of the tradition we have been describing. The label 'neo-Robinsonian' – as opposed to neo-Kaleckian or neo-Marxist – seems preferable as it serves to distinguish the investment-led growth models we have been discussing from the long-run multiplier-accelerator framework prefered below, while recognizing that both of these families of models might be categorized as 'structuralist.'

[199]While our focus here is on authors working in the Robinson-Kalecki tradition, one should note that a profit-led growth interpretation is essentially mirrored in the work of many neo-Marxist authors. For instance, Gérard Duménil and Dominique Lévy have repeatedly argued that the modest recovery of the US growth rate over the past twenty years is linked to an upturn in the profit rate. The rising profit rate is, in turn, due to an increase in the profit share driven by modest productivity growth and stagnant real wages. See Duménil and Lévy 2004, p. 59-65.

[200]See for instance Dutt 1984, and Taylor 1988.

flourished, with much of the discussion centering on the effects of redistribution in developed capitalist countries. The early 1990s saw the first wave of empirical estimations of this model's coefficients produced by David Gordon, Robert Blecker, and Sam Bowles, among others. At the theoretical level, the demands of realism saw closed-economy models cast to the side, and the adoption of open-economy models. On the whole, these studies offered little empirical validation for wage-led regimes, though their political and policy conclusions varied. Though closed-economy models presented limited support for the existence of wage-led regimes, open-economy models found that the growth of domestic effective demand fostered by a redistribution towards wages would tend to be over-shadowed by the decline in export demand produced by the rising wage share.[201]

Robert Blecker's application of the Marglin-Bhaduri framework offered mixed results. His work identified a number of fundamental structrual shifts in the US with their fulcrum in the 1980s. Alongside the renewed rise in the profit share, Blecker found that the propensity to save out of profit income declined substantially for the period between 1983 and 1990 when compared to previous post-War rates. For Blecker, this change, coupled with Reagan-era tax reforms which made the code much more regressive, diminished the potential vitality of a wage-led growth regime. Despite these transformations, Blecker is clear that the 1980s should *not* be seen as a profit-led growth regime, and indeed highlights income inequality as a persistant drag on future growth in the US.[202]

The work of Bhaskar and Glyn, while clearly insisting upon a role for profitability in the determination of investment, was also circumspect about the emirical evidence for profit-led growth. The authors estimated the parameter values of an investment function when applied to seven advanced capitalist countries over the period 1955 to 1988. The estimated investment function included the gross profit share, the rate of growth of output, and a measure of the relative costs of capital and labor as independent variables. The function could therefore be understood as a test of the relative explanatory power of profit-led, accelerator driven, and neoclassical models of investment behavior, respectively. For all but France, the estimations yielded significant positive coeffecients on the profit share term. The estimation, however, frequently yielded significant coefficients of the expected sign for all of the model's explanatory variables, results which fail to priviledge any one 'type' of investent function. The authors conclude by noting that "our results *do not* show that enhanced profitability is always a necessary, let alone a sufficient condition for increased investment. Demand and relative costs are important as well. . . [and a] redistribution of income away from labor is not necessarily

[201]Bowles and Boyer 1995. This argument is also presented by Marglin and Bhaduri (1990) in their discussion of an open-economy model.
[202]Blecker 1994, p. 276-309.

required."[203]

A more forceful challenge to the feasibility of wage-led growth came from David Gordon, whose skepticism derived from two basic premises. First, Gordon argued that globalization brought with it an increasingly elastic reponse of investment to changes in the domestic profit rate. That is, with the growth of foreign investment oportunities, investors would be increasingly likely to gauge the expected profitability of domestic investment against that which they could be expected to obtain abroad.[204] Secondly, building upon his earlier wage bargaining and labor extraction models, he problematized the simple relationship between rising capacity utilization and higher levels of profit. On the basis of the decomposition of the profit rate given in Equation 2, it is, of course, clear that a rise in the level of capicity utilization will, *ceteris paribus*, raise the profit rate. What this simple exercise fails to capture, according to Gordon, is that the level of capacity utilization may also serve as an index of the relative power of capitalists in setting wages. At low levels of capacity utilization, and a relatively high level of unemployment, the cost of job loss remains high and acts as a check to organized labor in its push for higher real wages. As utilization rises, however, one can also expect a strengthening of labor's bargaining position. For Gordon, this implies that a rise in capacity utilization may have the countervailing effect of depressing the profit share and the resultant rate of profit.[205] As we have noted earlier, what distinguishes Gordon's work from earlier models is the attempt to ground these assertions in econometric evidence. In support of the first contention, Gordon estimated the profit rate elasticities of savings, investment, and exports, and found that positive impact of higher rates of profit on investment and exports far outweighed the attendant rise in savings.[206] In estimating what he calls the 'profitability function,' Gordon finds that for the US case between 1955 and 1988, increases in capacity utilization above the 85 percent level tended to depress the rate of profit. Gordon was particularly forceful in his conclusions drawn from empirical applications of the model. In his view, what the empirical application of structuralist models revealed was that increases in the wage share would be highly unlikely to induce higher levels of capacity utilization and long-run growth. Strategies of wage-led growth are grounded in "wishful thinking" about the characteristics of advanced capitalist economies.[207] Further, Gordon was well aware that such a dismissal of wage-led growth would be an unpalatable conclusion for many on the traditional political left, given that the strategy of profit-led growth "overlaps with the objectives which right-wing forces have pursued in economies such as the United States since

[203] Bhaskar and Glyn 1995, p. 192.
[204] Gordon 1995, p. 344-5.
[205] Ibid, p. 343-4.
[206] Gordon's estimates are given in Ibid, p. 362.
[207] Ibid, p. 366-7.

the mid-1970s."[208] Interestingly, the position taken by Gordon here stands in stark contrast to the assertions of his earlier collaborative work. In *Beyond the Waste Land,* the authors noted a basic flaw in the argument that a rising profit share would generate growth. They note that such a redistribution would lower consumption and thus depress aggregate demand unless increases in investment and exports were to compensate for this fall. They note that "[i]t is extremely unlikely that investment will increase while consumption is falling because. . . the level of aggregate demand is the most important determinant of total investment. It is no more likely that net exports will increase. . . On balance, then, a redistribution from wages to profits is a hazardous strategy for promoting investment. Without increases in final demand, the necessary increases in investment are unlikely. Profits may flourish, but investment may stagnate."[209]

Something of the historical narrative offered by Marglin and Bhaduri (1990b) is reflected in Lance Taylor's empirical contributions to the literature. In surveying the period from 1948 to 2001 in the US, Taylor finds that while the accelerator effect of capacity utilization was markedly stronger in the period pre-1970, on the whole, growth can be categorized as profit-led. Noting the inherent limitiations of sample size, Taylor finds some support for a limited period for wage-led growth during the 1970s, but seems to argue that this has never been a lasting regime in post-War US experience.[210] Subsequent empirical studies have yielded mixed results. Naastepad and Storm find that for the period 1960-2000, the US economy was profit-led, in contrast to a number of other OECD economies.[211] By contrast, Eckhard Hein and his co-authors have repeatedly found that for the period 1960-2005, the US should be characterized as wage-led.[212] This finding is echoed by López-Gallardo and Reyes-Ortiz, who emphasize that much of the recent growth realized in the US may have been driven by rising levels of consumer indebtedness.[213]

3.3 'Hamlet without the Prince'

The grounding question that remains is whether this family of models has realized Robinson's object of extending Keynes' short-period analysis to a theory of long-run growth. The preceeding survey, though far from exhaustive, should permit an answer to this question. Certainly, these models succeed in complicating the familiar profit squeeze narrative of the stagnationists, and in demonstrating that redistributive policies, both progressive and regressive, may have ambiguous effects on trend growth. This, no doubt, is a feature that models of long-run growth should strive

[208] Ibid, p. 370.
[209] Bowles, Gordon, and Weisskopf 1983, p. 229-30.
[210] Taylor 2004, p. 281-92. Similar results for the US are presented in Barbosa-Filho and Taylor 2003.
[211] Naastepad and Storm 2007.
[212] Hein and Vogel 2008, and Hein and Tarassow 2010.
[213] López-Gallardo and Reyes-Ortiz 2011.

to retain. What is conspicuously absent from these models, however, is a genuine extension of the principle of effective demand to the long period. As we have seen, neo-Robinsonian models, in their multitude of forms, assume that the rate of profit is the prime mover of the system, determining the level of investment, and ultimately the rate of growth. A true extension of the principle of effective demand should insist that it is investment that determines current profitability, and effective demand that determines the level of investment.[214] That is, we should emphasize the role played by the accelerator in stimulating investment demand.

Recent scholarship has ably traced the intellectual origins of the acceleration principle in the work of J.M. Clark, Erik Lundberg, Roy Harrod, and John Hicks.[215] As is well known, from these disparate origins, the accelerator principle came to figure prominantly in Kaldor's later work on long-run growth, as well as the neoclassical synthesis models popularized by Paul Samuelson and his partisans. While Kaldor's early models of long-run growth were couched in the stylized fact of post-War full-employment, his 'mature' growth models afforded a central role to the Hicksian supermultiplier. As Kaldor noted, the supermultiplier principle argues that:

> both the rate of growth of induced investment, and the rate of growth of consumption, become attuned to the rate of growth of the autonomous component of demand, so that the growth of an autonomous demand-factor will govern the rate of growth of the economy as a whole.[216]

By contrast, in the neo-Robinsonian models we have been discussing, the specification of an independent investment function, and the causal priority afforded to it, implicitly relegates the acceleration principle to a subsidiary role in growth.[217]

Given the basic premise of the accelerator – that investment in derived demand – and its fundamental incompatibility with both neoclassical theory and Robinsonian models, it is perhaps unsurprising that empirical support for the acceleration principle has been episodic in the literature. Robert Eisner's empirical estimates of the accelerator, and his debate with Dale Jorgenson, prompted of modest revival of the accelerator principle in the mid-1960s.[218] Generalizing, empirical tests for the accelerator conducted on the basis of macroeconomic aggregates have tended to support its importance.[219] In surveying the existing literature on competing models of the investment decesion, Robert Chirinko's well-known study concluded that "on balance, the response of investment to price

[214]This objection remains well captured by Nell 1985.
[215]See Besomi 2003, and Fiorito 2007. The pioneering study remains Knox 1952.
[216]Kaldor 1989.
[217]While the coefficient of the capacity utilization term in the investment function of Marglin-Bhaduri models is sometimes interpreted as the accelerator, we should recall that for Marglin and Bhaduri, both the profit share and the level of capacity utilization are mere proxies for the expected rate of profit.
[218]See for instance Eisner and Strotz 1963, and Eisner 1963.
[219]See Clark 1988.

variables tends to be small and unimportant relative to quantity variables."[220] Dissenters operating in a post-Keynesian framework, such as Steven Fazzari and Tracey Mott, have utilized firm level data to argue that the rate of profit is an important determinant of investment as it affects the internal financing available to firms, as well as potential creditors' assessments of those firms.[221] These authors, while critical of the neoclassical emphasis on the cost of capital as the prime determinant of investment, see the rate of profit as a necessary complement to the accelerator in modeling investment.

If, following Kaldorian lines, we are to reassert the *foundational* role of the accelerator in the theory of economic growth, the basic empirical question is that of causality between economic growth (demand) and investment. From any theoretical perspective, investment and growth ought to be strongly correlated. A long-run theory of growth, however, demands that we specify a causal structure with respect to these changes. To be clear, no econometric test should be taken as conclusive evidence of the direction of causality between growth and investment. Indeed, this caution may offer an easy explanation of the relative dearth of such formal causality testing in the literature. Bearing this in mind, econometric testing can offer qualified support for our proposed causal ordering.

3.4 Causality Testing

The causality testing presented below finds limited precedent in the literature. Utilizing a sample of 101 countries, Magnus Blomström and his co-authors offered support for the contention that growth largely preceeds capital formation.[222] Regressing the ratio of fixed capital formation to GDP on lagged real GDP growth, the authors find significant positive coefficients on real GDP growth. These coefficients remain significant when lagged fixed capital formation is included in the estimated equation, suggesting that long-run growth is not investment-led.

While these estimates provide support for the primacy of the accelerator over longer periods, the present study proposes to test for the acceleration principle over quaterly intervals. Additionally, only rates of growth and investment for the US since 1948 are examined. The question of causality was addressed by first specifying an vector autoregression (VAR) model, where INV is the rate of change from the previous quater of private nonresidential fixed investment, GDP is the quarterly rate of change of real GDP, t is the quarter under consideration, a is the estimated coefficient for the respective independent variable, p is the specified number of lags, and c is a constant. Let

[220] Chirinko 1993, p. 1905.
[221] Fazzari and Mott 1987. The authors also provide a useful review of the literature on empirical estimates of investment functions.
[222] Blomström 1996.

$\mathbf{Y}_t = (GDP_t,\, INV_t)^T$ denote a (2x1) vector of dependent variables. The basic model has the form:

$$\mathbf{Y_t} = \mathbf{c} + \mathbf{a}_1\mathbf{Y}_{t-1} + \mathbf{a}_2\mathbf{Y}_{t-2} + \ldots + \mathbf{a}_p\mathbf{Y}_{t-p} + \epsilon_t \tag{4}$$

where $\mathbf{a}_i$ are (2xn) coefficient matrices, $\mathbf{c}$ is (2x1) vector of constants, and ϵ is a (2x1) vector of error terms. As there is no compelling theoretical reason to suppose that the accelerator mechanism operates over a given number of lags, Akaike information criteria (AIC) were utilized in lag selection. In comparing varying lag structures, the inclusion of three lags was seen as optimal as it yielded the lowest AIC.[223] The estimated coefficients of the model are presented in Table 1, and impulse response functions to a one standard deviation shock are given in Figure 1.

As the existence of a cointegrating relationship between *GDP* and *INV* would imply Granger causality in the model (though not its direction), an Engle-Granger (1987) test for cointegration was performed. The test strongly suggests the rejection of the null hypothesis of cointegrating relationship between *GDP* and *INV*.[224] Bearing this feature of the data in mind, results of Granger causality tests were performed. The test yielded significant Wald statistics for causality in both directions, and consequently the hypothesis of Granger causality in the models must be rejected.

As would be expected, there is no definitive evidence of the direction of causality in the model. Still, these results warrent a few provisonal conclusions.

Table 1: Estimation results : VAR (3 lags)

Variable	**Coefficient**	**(Std. Err.)**
	Equation 1 : GDP	
L.GDP	0.324**	(0.076)
L2.GDP	0.186*	(0.079)
L3.GDP	0.042	(0.080)
L.INV	-0.001	(0.032)
L2.INV	-0.030	(0.031)
L3.INV	-0.073**	(0.028)
Intercept	1.954**	(0.371)
	Equation 2 : INV	
L.GDP	1.101**	(0.185)
L2.GDP	0.323†	(0.193)
L3.GDP	0.148	(0.195)
L.INV	0.132†	(0.077)
L2.INV	-0.029	(0.076)
L3.INV	0.023	(0.068)
Intercept	-1.007	(0.903)

Significance levels : $\dagger$: 10% $*$: 5% $**$: 1%

[223] A model with one lag was also estimated. In this case of this specification, *GDP* is seen to Granger cause *INV*; a result significant at the 1 percent level. Alternately, we fail to reject the null hypothesis that *INV* does not Granger cause *GDP*.

[224] The augmented Dickey-Fuller test statistic is -4.101, significant at the 1 percent level.

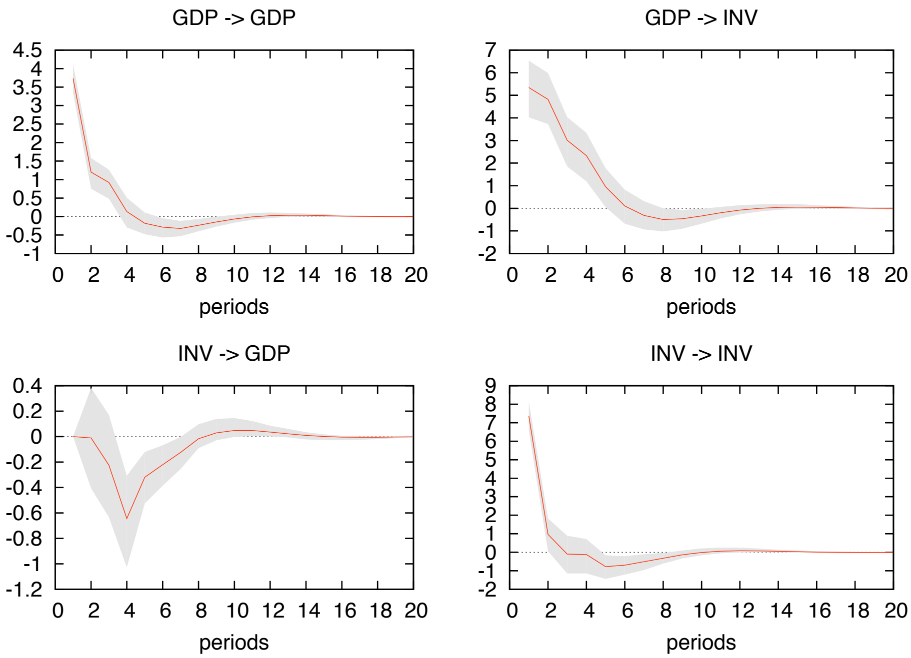

Figure 1: Impulse Response Functions

Taking *INV* as the dependent variable, we find significant coefficients on *GDP* with the expected sign. Treating *INV* as the dependent variable, and *GDP* as the causal variable, we may reject the null hypothesis of no Granger causality at the one percent significance level. Importantly, however, the model yields *INV* coefficients with the 'wrong' sign when *GDP* is treated as the dependent variable. Given this result, the models can be interpreted as providing strong evidence of an operative accelerator mechanism, and little support for a pattern of investment-led growth.

3.5 Household Debt and Growth

As we have noted above, the existence of profit-led growth regimes would imply that redistributive policies aimed at augmenting the wage share in national income, however well-intentioned, will only serve to slow the rate of investment and long-run growth. Put another way, a profit-led growth regime would sound the practical death knell of social democratic projects in the US, independent of the political feasability of such projects. As we have seen, it is difficult to point to any consensus in the literature as to the existence of a profit-led regime in the US; it would certainly be hasty to conclude that developed capitalist economies tend to be profit-led. Thus, if one accepts the neo-Robinsonian models we have discussed, the growing volume of studies which find that the US has remained wage-led should be heartening for proponents of redistributive policies. Such models may not, however, provide the best tool with which to understand the growth regime of the US over the past two decades.

It is surprising, to say the least, that neo-Robinsonian authors have largely failed to incorporate *consumer* debt into their models of long-run growth.[225] While the Marglin-Bhaduri model has increasingly been extended to incorporate monetary variables, with an exogenously determined interest rate entering into the investment function, such models are limited. Specifically, such models often assume an exogenously given debt-capital ratio, and examine the effects on investment and growth of changes in the rate of interest.[226] By constrast, the role of household debt in demand-led regimes has recieved little attention.

3.6 A Model of Household Debt and Short-Run Growth

In the simple model presented earlier, we found some limited evidence for the primacy of the acclerator mechanism, a framework which is loosely compatible with the idea that recent growth has been led by unsustainable consumer debt bubbles. In his mature work, Kaldor generally identified autonomous demand as external demand for a given nation's exports. This should not, however, lead us to treat autonomous demand simply as external demand, particularly in the case of the US. In formalizing a model of the supermultiplier, Franklin Serrano categorizes as 'autonomous demand' any expenditures that do not create capacity, and are not financed by wage or salary income.[227] The discresionary expenditures of workers financed by consumer credit can therefore be understood as autonomous in the context of the supermultiplier model. Examining the impact of consumer debt, one would expect that initial increases in debt to finance consumption positively impact rates of growth, while over a longer time horizon, the mounting debt servicing burden would act as a drag on growth. An approach to modeling the dynamic impacts of consumer debt within a multiplier-accelerator context was suggested by Tom Palley (1994). Utilizing a data set for the US between 1975 and 1991, Palley's VAR model demonstrated that changes in rising consumer debt were capable of generating short-run cycles.

The model presented here adapts Palley's model to more recent available data for the US. Here GNP is defined as the rate of change of quarterly gross national product per capita, $DEBT$ is the quarterly rate of change of outstanding household credit market debt per capita, and $BURD$ is

[225]A notable exception is Dutt 2006. Dutt finds the increases in consumer debt-income ratios exert short-run expansionary effects by increasing the level of capacity utilization, and inducing investment, but theoretically ambiguous effects with regard to long-run expansion. Amit Bhaduri has also presented a pseudo-Kaleckian model intended to capture the effects of consumer debt and financialization. At a foundational level, this model differs from Bhaduri's contributions discussed above in that investment is treated as a positive function of current output, and a negative function of expected capital gains from investments in the financial sector. See Bhaduri 2011.

[226]See Hein 2007. Hein shows that the net effect of variations in the rate of interest depend upon the interest elasticity of investment, and the distributional effects which may result if firms' mark-up is elastic with respect to the rate of interest.

[227]Serrano 1995.

the rate of change of the debt servicing burden proxied by outstanding household credit market debt per capita multiplied by the prime rate of interest. Further, let t denote the quarter under consideration, a the estimated coefficient for the respective independent variable, and c a constant. Let $\mathbf{Y}_t = (GNP_t, DEBT_t, BURD_t)^T$ denote a (3x1) vector of dependent variables. The basic model then has the form:

$$\mathbf{Y_t} = \mathbf{c} + \mathbf{a}_1\mathbf{Y}_{t-1} + \mathbf{a}_2\mathbf{Y}_{t-2} + \mathbf{a}_3\mathbf{Y}_{t-3} + \epsilon_t \tag{5}$$

where $\mathbf{a}_i$ are (3x3) coefficient matrices, $\mathbf{c}$ is (3x1) vector of constants, and ϵ is a (3x1) vector of error terms. The estimation results are presented in Table 2. Impulse response functions to a one standard deviation shock to each of the independent variables are given in Figure 2.

3.7 Empirical Results

Estimation results are provided in Table 2, and impulse response functions for each variable are given in Figure 2. The estimation of the proposed VAR model yields significant results of the expected sign. As the theoretical framework of the supermultiplier would predict, the models suggests that an initial positive shock to consumer debt levels (autonomous demand) will generate a strong positive output response. Moreover, such consumer debt shocks are shown to be capable of producing a cyclical output response, in line with the results obtained by Palley. Shocks to consumer's debt servicing burden likewise produce pronounced negative responses from output levels. This suggests that while rising consumer debt levels are capable of generating short-run booms, countervailing contractionary forces – in the form of a rising debt service burden – are operative even in such a short-run context.

3.8 Conclusions

This paper argues that distinction drawn by neo-Kaleckian (and post-Keynesian) authors between wage- and profit-led growth regimes depends theoretically on the specification of a particular restrictive automous investment function. While there is little empirical consensus as to which regime has been operative in the US and other advanced capitalist countries, the distinction itself enjoys widespread acceptance. In investment functions of this family of models, the level of investment is taken to be a positive function of the expected rate of profit. Further, it is generally assumed that the current rate of profit serves as the best gauge for firms of the expected rate of profit which is,

Table 2: Estimation results

Variable	**Coefficient**	**(Std. Err.)**
Equation 1 : GNP		
L.GNP	0.197**	(0.073)
L2.GNP	0.215**	(0.071)
L3.GNP	-0.008	(0.071)
L.DEBT	0.349**	(0.106)
L2.DEBT	-0.073	(0.116)
L3.DEBT	-0.198†	(0.108)
L.BURD	-0.006	(0.007)
L2.BURD	-0.018*	(0.008)
L3.BURD	0.005	(0.007)
Intercept	0.002	(0.001)
Equation 2 : DEBT		
L.GNP	0.081†	(0.048)
L2.GNP	0.088†	(0.047)
L3.GNP	0.031	(0.047)
L.DEBT	0.476**	(0.070)
L2.DEBT	0.173*	(0.076)
L3.DEBT	0.270**	(0.071)
L.BURD	-0.004	(0.005)
L2.BURD	-0.005	(0.005)
L3.BURD	-0.008†	(0.005)
Intercept	0.001	(0.001)
Equation 3 : BURD		
L.GNP	2.615**	(0.673)
L2.GNP	0.747	(0.660)
L3.GNP	-0.652	(0.657)
L.DEBT	1.985*	(0.981)
L2.DEBT	-2.003†	(1.074)
L3.DEBT	1.559	(0.997)
L.BURD	0.316**	(0.068)
L2.BURD	-0.125†	(0.072)
L3.BURD	0.223**	(0.067)
Intercept	-0.030*	(0.012)

Significance levels : † : 10% ∗ : 5% ∗∗ : 1%

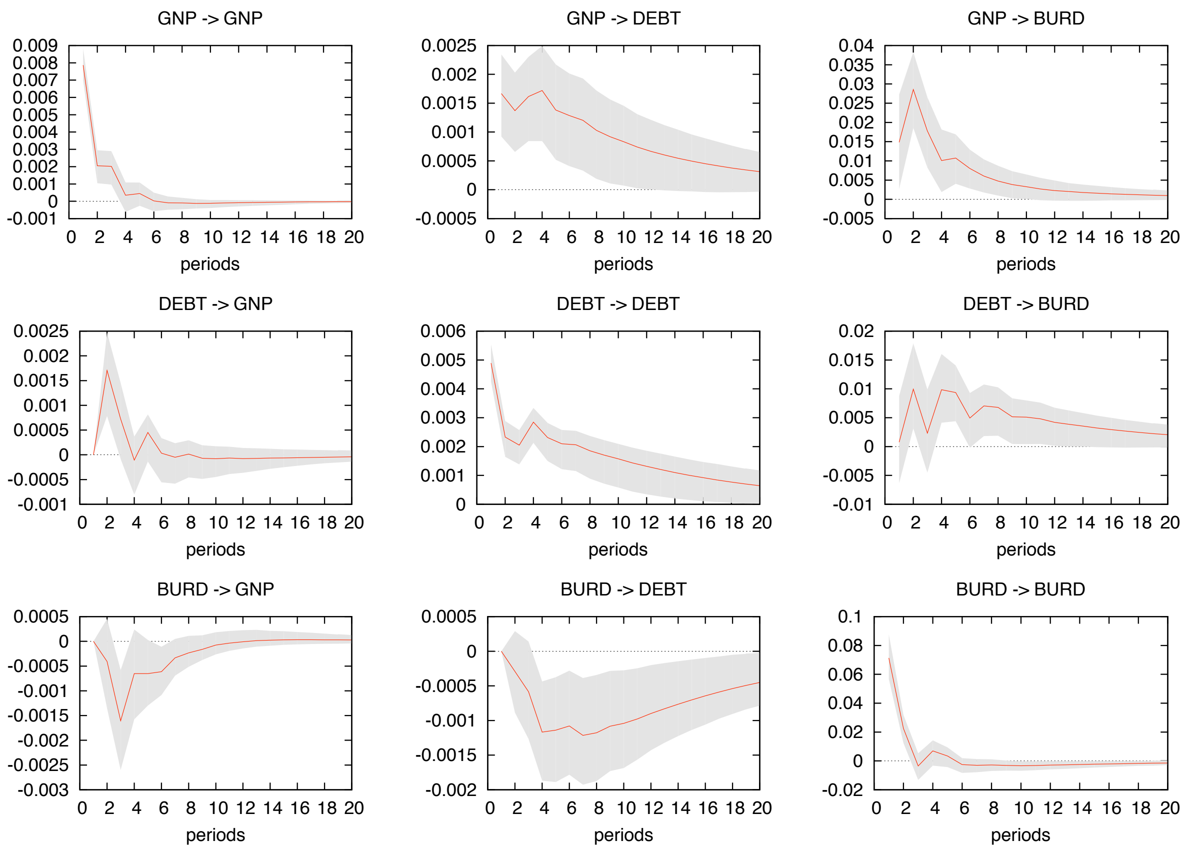

Figure 2: Impulse Response Functions (Confindence Intervals Shaded)

in turn, decomposed into autonomous independent variables for the profit share and the level of capacity utilization. Here it is argued that such investment function precludes any consideration of an *independent* role for the accelerator mechanism in determining the level of investment. By contrast, the family of Kaldorian supermultiplier models described above treats investment as derived demand. Pinpointing the sources of 'autonomous demand' impacting investment and growth is then of central importance for this family of models. Such accelerator-driven models of long-run growth succeed not only in extending the principle of effective demand to the long-run theoretically, but also are compatible with the empirical evidence that growth in the US has *not* been investment led. Finally, we argue that the category 'autonomous demand' can be broadened to encompass debt-financed discresionary consumer spending. Consequently, such models are theoretically compatible with the assertion that recent growth in the US is not primarily the product of rising rates of profits, but was instead (temporarily) sustained by rising levels of consumer debt.

Few authors would contest that income inequality in the US has increased dramatically since

1980.[228] Further, from the early-1990s onward, levels of household debt relative to personal disposable income rose to historically unprecedented levels. Much of this increase in indebtedness was driven by rising home mortgage debt, but outstanding consumer credit followed a similar pattern. This rise in US households' debt to income ratios allowed consumers to maintain previous consumption patterns, at least in the short-run.[229] As Aldo Barba and Massimo Pivetti have suggested, "[a]ctual US experience since the beginning of the 1980s seems to suggest that workers' acquired standards of living tend to determine their consumption levels, rather than their real wages, with the corollary that workers' consumption tends to be inelastic with respect to reductions in real wages."[230] From this perspective, the rise in US household indebtedness helped to maintain robust levels of consumer demand, despite the long-term rise in the profit share.[231]

These empirical trends, and the econometric support for the primacy of the accelerator offered above, suggest that recent US growth may be better understood in the context of a simple Kaldorian supermultiplier framework. While the profit share has risen significantly over the past 30 years, the conjecture that the US growth regime has been profit-led is largely based upon spurious correlations. Instead, investment has remained demand-led, as consumer spending was (unsustainably) bolstered by rising debt-income levels. Thus in the absence of a resurregent wave of household borrowing – which seems unlikely to materialize – a return to trend levels of long-run growth will require not only counter-cyclical fiscal policy, but dramatic redistributive measures to augment the wage share in national income.

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[228] See for instance Piketty and Saez 1996, p. 200-5.

[229] Drawing from its structuralist models of the US economy, the Levy Institute of Bard College offered early and persistent warnings about the unsustainability of the growth regime post-2001 given, in part, its reliance on rising levels of household debt. See for instance Papadimitriou 2005.

[230] Barba and Pivetti 2009.

[231] See Cynamon and Fazzari 2008, and Brown 2004.

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